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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **June 3, 2005**

American Real Estate Partners, L.P.

(Exact name of registrant as specified in its charter)

Delaware	**1-9516**	**13-3398766**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

100 South Bedford Road, Mt. Kisco, NY 10549
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(914) 242-7700**

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 8—Other Events

Item 8.01 Other Events.

On April 6, 2005, American Real Estate Partners, L.P. ("AREP") closed its previously announced acquisition of TransTexas Gas Corporation for $180 million in cash. TransTexas is considered an entity under common control. As a result, AREP is providing supplemental consolidated financial statements to include TransTexas' financial results since August 28, 2003, the period of common control.

Accordingly, we are providing the following to reflect the restatement: Selected Financial Data, Management's Discussion and Analysis of Supplemental Financial Condition and Results of Operations, Supplemental Consolidated Financial Statements and Exhibits, for the periods indicated.

Section 9—Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

Exhibit No.	Description
99.1	Selected Financial Data.
99.2	Management's Discussion and Analysis of Supplemental Financial Condition and Results of Operations.
99.3	Supplemental Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN REAL ESTATE PARTNERS, L.P.

By: American Property Investors, Inc. General Partner

By: /s/ JOHN P. SALDARELLI

John P. Saldarelli
Vice President, Chief Financial Officer, Secretary and Treasurer

Date: June 3, 2005

Exhibit Index

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Item 8.01 Other Events.
Item 9.01 Financial Statements and Exhibits.

SIGNATURES
Exhibit Index

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EXHIBIT 99.1

SELECTED FINANCIAL DATA

The following table summarizes certain selected supplemental consolidated financial data of AREP, which includes the effect of the acquisition of TransTexas accounted for in a manner similar to a pooling of interests, which you should read in conjunction with AREP's supplemental financial statements and the related notes contained in this Form 8-K and "Management's Discussion and Analysis of Supplemental Financial Condition and Results of Operations." The selected supplemental consolidated financial data as of December 31, 2004 and 2003, and for the years ended December 31, 2004, 2003 and 2002, have each been derived from our audited supplemental consolidated financial statements at those dates and for those periods, contained elsewhere in this report. Our financial statements for periods prior to September 1, 2003 have not been affected by the acquisition of TransTexas. The selected consolidated financial data as of December 31, 2002 and 2001 and for the year ended December 31, 2001 has been derived from our audited consolidated financial statements at that date and for that period, not contained in this Form 8-K. The selected consolidated financial data as of and for the year ended December 31, 2000 has been derived from our consolidated financial statements (unaudited) at that date and for that period. In addition, certain amounts have been reclassified as discontinued operations in accordance with Statement of Financial Accounting Standards No. 144. The selected supplemental consolidated financial data as of March 31, 2005 and for the three months ended March 31, 2005 and 2004 are unaudited. For the three month periods ended March 31, 2005 and 2004, all adjustments, consisting only of normal recurring adjustments, which are in our opinion, necessary for a fair presentation of interim consolidated financial statements, have been included. Results for the three months ended March 31, 2005 and 2004 are not necessarily indicative of the results for the full year.

	Three Months Ended March 31,		Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
	(in $000's, except per unit amounts)						
Total revenues	$ 144,226	$ 116,452	$ 506,196	$ 388,666	$ 434,652	$ 414,545	$ 378,179
Operating income	$ 27,290	$ 22,533	$ 87,159	$ 61,948	$ 79,387	$ 63,938	$ 65,356
Other gains (losses):							
Gain on sale of marketable equity and debt securities	—	28,857	40,159	2,607	—	6,749	—
Unrealized gain (losses) on securities sold short	21,704	—	(23,619)	—	—	—	—
Change in fair market value of derivative contract	(9,813)	—	—	—	—	—	—
Impairment loss on equity interest in GB Holdings, Inc.	—	—	(15,600)	—	—	—	—
Gain (loss) on sale of other assets	(180)	(4)	1,680	(1,503)	(353)	27	—
Gain on sales and disposition of real estate	186	6,047	5,262	7,121	8,990	1,737	6,763
Write-down of marketable equity and debt securities and other investments	—	—	—	(19,759)	(8,476)	—	—
Gain (loss) on limited partnership interests	—	—	—	—	(3,750)	—	3,461
Severance tax refund	—	—	4,468	—	—	—	—
Minority interest	—	(39)	(812)	(1,266)	(1,943)	(450)	(2,747)
Income from continuing operations before income taxes	39,187	57,394	98,697	49,148	73,855	72,001	73,833
Income tax (expense) benefit	(4,782)	(5,966)	(17,326)	16,750	(10,096)	25,664	379
Income from continuing operations	34,405	51,428	81,371	65,898	63,759	97,665	74,212
Discontinued operations:							
Income from discontinued operations	957	3,218	7,500	7,653	6,937	7,944	6,260
Gain on sales and disposition of real estate	18,723	6,929	75,197	3,353	—	—	—
Total income from discontinued operations	19,680	10,147	82,697	11,006	6,937	7,944	6,260
Net earnings	$ 54,085	$ 61,575	$ 164,068	$ 76,904	$ 70,696	$ 105,609	$ 80,472
Net Earnings Attributable to:							
Limited partners	$ 58,228	$ 57,608	$ 152,507	$ 59,360	$ 63,168	$ 66,190	$ 72,225
General partner	(4,143)	3,967	11,561	17,544	7,528	39,419	8,247
Net earnings	$ 54,085	$ 61,575	$ 164,068	$ 76,904	$ 70,696	$ 105,609	$ 80,472

	Three Months Ended March 31,		Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
	(in $000's except per unit amounts)						
Net earnings per limited partnership unit:							
Basic earnings:							
Income from continuing operations	$ 0.84	$ 1.03	$ 1.55	$ 1.00	$ 1.12	$ 1.17	$ 1.35
Income from discontinued operations	0.42	0.22	1.76	0.24	0.15	0.17	0.13
Basic earnings per LP Unit	$ 1.26	$ 1.25	$ 3.31	$ 1.24	$ 1.27	$ 1.34	$ 1.48
Weighted average limited partnership units outstanding	46,098,284	46,098,284	46,098,284	46,098,284	46,098,284	46,098,284	46,098,284
Diluted earnings:							
Income from continuing operations	$ 0.81	$ 0.93	$ 1.48	$ 0.94	$ 1.00	$ 1.05	$ 1.18
Income from discontinued operations	0.39	0.19	1.57	0.19	0.12	0.14	0.11
Diluted earnings per LP Unit	$ 1.20	$ 1.12	$ 3.05	$ 1.13	$ 1.12	$ 1.19	$ 1.29
Weighted average limited partnership units and equivalent partnership units outstanding	49,857,622	52,499,303	51,542,312	54,489,943	56,466,698	55,599,112	56,157,079
Other financial data:							
Capital expenditures (excluding property acquisitions)	$ 25,852	$ 6,272	$ 81,696	$ 33,957	$ 23,034	$ 68,199	$ 52,598

	March 31,	At December 31,				
	2005	2004	2003	2002(1)	2001(1)	2000
	(in $000's)					
Balance Sheet Data:						
Cash and cash equivalents	$ 1,250,074	$ 768,918	$ 504,369	$ 79,540	$ 83,975	$ 172,621
Hotel, casino and resort operating properties	334,931	339,492	340,229	335,121	339,201	264,566
Oil and gas properties	180,241	168,136	168,921	—	—	—
Investment in U.S. Government and Agency obligations	74,427	102,331	61,573	336,051	313,641	475,267
Other investments	244,602	245,948	50,328	54,216	10,529	4,289
Total assets	2,935,697	2,408,189	1,831,573	1,706,031	1,721,100	1,566,597
Mortgages payable	80,191	91,896	180,989	171,848	166,808	182,049
Senior secured note payable 7.85% due 2012	215,000	215,000	—	—	—	—
Senior unsecured notes payable 8 1/8% due 2012	350,679	350,598	—	—	—	—
Senior unsecured notes payable 7 1/8% due 2013	480,000	—	—	—	—	—
Liability for preferred limited partnership units(1)	108,006	106,731	101,649	—	—	—
Partners' equity	$ 1,479,125	$ 1,427,435	$ 1,393,347	$ 1,245,437	$ 1,136,452	$ 1,154,400

(1) On July 1, 2003, we adopted Statement of Financial Accounting Standards No. 150 (SFAS 150), Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS 150 requires that a financial instrument, which is an unconditional obligation, be classified as a liability. Previous guidance required an entity to include in equity financial instruments that the entity could redeem in either cash or stock. Pursuant to SFAS 150, our preferred units, which are an unconditional obligation, have been reclassified

from "Partners' equity" to a liability account in the consolidated balance sheets and the preferred pay-in-kind distribution for the period from July 1, 2003 to December 31, 2003 of $2.4 million and all future distributions have been and will be recorded as "Interest expense" in the consolidated statements of earnings.

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EXHIBIT 99.1

SELECTED FINANCIAL DATA

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EXHIBIT 99.2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF SUPPLEMENTAL FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a diversified holding company engaged in a variety of businesses. Our primary business strategy is to continue to grow our core businesses, including real estate, gaming and entertainment, and oil and gas. In addition, we seek to acquire undervalued assets and companies that are distressed or in out of favor industries.

Our businesses currently include rental real estate; real estate development; hotel and resort operations; hotel and casino operations; oil and gas exploration and production; and investments in equity and debt securities. We may also seek opportunities in other sectors, including energy, industrial manufacturing, insurance and asset management.

In continuation of our strategy to grow our core businesses, we have recently acquired, and have entered into agreements to acquire, additional gaming and entertainment and oil and gas assets from affiliates of Mr. Icahn.

To capitalize on favorable real estate market conditions and the mature nature of our commercial real estate portfolio, we have offered our rental real estate portfolio for sale. During the year ended December 31, 2004, we sold 57 rental real estate properties for approximately $245.4 million. These properties were encumbered by mortgage debt of approximately $93.8 million that we repaid from the sale proceeds. As of December 31, 2004, we owned 71 rental real estate properties with a book value of approximately $196.3 million, individually encumbered by mortgage debt which aggregated approximately $91.9 million. As of December 31, 2004, we had entered into conditional sales contracts or letters of intent for 15 rental real estate properties. Selling prices for the properties covered by the contracts or letters of intent would total approximately $97.9 million. These properties are encumbered by mortgage debt of approximately $36.0 million. Because of the conditional nature of sales contracts and letters of intent, we cannot be certain that these properties will be sold. We continue to seek purchasers for our remaining rental real estate portfolio. We cannot be certain that we will receive offers satisfactory to us or, if we receive offers, any of the properties will ultimately be sold at prices acceptable to us.

In the three months ended March 31, 2005, we sold four rental real estate properties and a golf resort for approximately $51.9 million which were encumbered by mortgage debt of approximately $10.7 million that was repaid from the sale proceeds. Of the five properties, we sold one financing lease property for approximately $8.4 million encumbered by mortgage debt of approximately $3.8 million. The carrying value of this property was approximately $8.2 million; therefore, we recognized a gain on sale of approximately $0.2 million in the three months ended March 31, 2005, which is included in income from continuing operations. We sold four operating properties for approximately $43.5 million encumbered by mortgage debt of approximately $6.9 million. The carrying value of these properties was approximately $24.8 million. We recognized a gain on sale of approximately $18.7 million in the three months ended March 31, 2005, which is included in income from discontinued operations.

At March 31, 2005, we had 11 properties under contract or as to which letters of intent had been executed by potential purchasers, all of which contracts or letters of intent are subject to purchaser's due diligence and other closing conditions. Selling prices for the properties covered by the contracts or letters of intent would total approximately $45.5 million. These properties are encumbered by mortgage debt of approximately $25.3 million. At March 31, 2005, the carrying value of these properties is approximately $29.1 million. In accordance with generally accepted accounting principles, only the real

estate operating properties under contract or letter of intent, but not the financing lease properties, were reclassified to "Properties Held for Sale" and the related income and expense reclassified to "Income from Discontinued Operations."

Historically, substantially all of our real estate assets leased to others have been net-leased to single corporate tenants under long-term leases. With certain exceptions, these tenants are required to pay all expenses relating to the leased property and therefore we are not typically responsible for payment of expenses, such as maintenance, utilities, taxes and insurance associated with such properties.

Expenses relating to environmental clean-up related to our development and rental real estate operations have not had a material effect on our earnings, capital expenditures or competitive position. We believe that substantially all such costs would be the responsibility of the tenants pursuant to lease terms. While most tenants have assumed responsibility for the environmental conditions existing on their leased property, there can be no assurance that we will not be deemed to be a responsible party or that the tenant will bear the costs of remediation. Also, as we acquire more operating properties, our exposure to environmental clean-up costs may increase. We have completed Phase I environmental site assessments on most of our properties through third-party consultants. Based on the results of these Phase I environmental site assessments, the environmental consultant has recommended that certain sites may have environmental conditions that should be further reviewed. We have notified each of the responsible tenants to attempt to ensure that they cause any required investigation and/or remediation to be performed and most tenants continue to take appropriate action. However, if the tenants fail to perform responsibilities under their leases referred to above, we could potentially be liable for these costs. Based on the limited number of Phase II environmental site assessments that have been conducted by the consultants, there can be no accurate estimate of the need for or extent of any required remediation, or the costs thereof. Phase I environmental site assessments will also be performed in connection with new acquisitions and with such property refinancings as we may deem necessary and appropriate. We are in the process of updating our Phase I environmental site assessments for certain of our environmentally sensitive properties. Approximately 75 updates were completed in 2003. No additional material environmental conditions were discovered. Although we conducted environmental investigations in 2004 for newly acquired properties and no environmental concerns were disclosed by such investigations, we did not conduct any updates to the Phase I environmental site assessments for our remaining portfolio in 2004.

We have made investments in the gaming industry through our ownership of Stratosphere Casino Hotel & Tower in Las Vegas, Nevada and through our purchase of securities of the entity which owns The Sands Hotel and Casino in Atlantic City, New Jersey. One of our subsidiaries, formed for this purpose, entered into an agreement in January 2004 to acquire two Las Vegas hotels and casinos, Arizona Charlie's Decatur and Arizona Charlie's Boulder, from Mr. Icahn and an entity affiliated with Mr. Icahn, for aggregate consideration of $125.9 million. Upon obtaining all approvals necessary under gaming laws, the acquisition was completed in May 2004. We have entered into an agreement with affiliates of Mr. Icahn pursuant to which we will acquire approximately 41.2% of the outstanding common stock of GB Holdings and approximately 11.3% of the fully diluted common stock of Atlantic Holdings, the indirect owner of The Sands Hotel and Casino. We are considering additional gaming industry investments. These investments may include acquisitions from, or be made in conjunction with, our affiliates, provided that the terms thereof are fair and reasonable to us.

We have entered into agreements with affiliates of Mr. Icahn to purchase the other membership interest in NEG Holding and 100% of Panaco, each an oil and gas exploration and production company. On April 6, 2005, we completed the purchase of TransTexas for $180.0 million of cash. NEG Operating, TransTexas and Panaco are affected by extensive regulation through various federal, state and local laws and regulations relating to the exploration for and development, production, gathering and marketing of oil and gas. NEG Operating, TransTexas and Panaco are also subject to numerous

environmental laws, including but not limited to, those governing management of waste, protection of water, air quality, the discharge of materials into the environment, and preservation of natural resources. Non-compliance with environmental laws and the discharge of oil, natural gas, or other materials into the air, soil or water may give rise to liabilities to the government and third parties, including civil and criminal penalties, and may require us to incur costs to remedy the discharge. Laws and regulations protecting the environment have become more stringent in recent years, and may in certain circumstances impose retroactive, strict, and joint and several liabilities rendering entities liable for environmental damage without regard to negligence or fault. We cannot assure you that new laws and regulations, or modifications of or new interpretations of existing laws and regulations, will not substantially increase the cost of compliance or otherwise adversely affect our oil and gas operations and financial condition or that material indemnity claims will not arise with respect to properties that we acquire. While we do not anticipate incurring material costs in connection with environmental compliance and remediation, we cannot guarantee that material costs will not be incurred.

In accordance with GAAP, assets transferred between entities under common control are accounted for at historical costs similar to a pooling of interests and the financial statements of previously separate companies for periods prior to the acquisition are (and, in the case of the pending acquisitions, following the closing of the acquisitions, will be) restated on a combined basis.

Supplemental Results of Operations

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004

Gross revenues increased by $27.8 million, or 23.9%, during the three months ended March 31, 2005 as compared to the same period in 2004. This increase reflects increases of $8.0 million in interest income on U.S. government and agency obligations and other investments, $7.8 million in hotel and casino operating income, $4.2 million in hotel and resort operating income, $3.4 million in dividend and other income, $3.3 million in land, house and condominium sales, $2.0 million in accretion of investment in NEG Holding LLC and $0.6 million in NEG management fees, partially offset by decreases of $1.0 million in interest income on financing leases and $0.6 million in equity in earnings of GB Holdings. The increase in interest income on U.S. government and agency obligations and other investments is primarily due to increased interest income from the senior debt proceeds, increased interest income from other investments and increased interest income on debt securities of affiliates. The increase in hotel and casino operating income is primarily due to an increase in casino, hotel and food and beverage revenues. Hotel and resort operating income increased primarily due to the Grand Harbor acquisition. The increase in land, house and condominium sales is primarily due to an increase in the number of units sold.

Expenses increased by $23.0 million, or 24.5%, during the three months ended March 31, 2005 as compared to the same period in 2004. This increase reflects increases of $12.1 million in interest expense, $4.0 million in hotel and resorts operating expenses, $3.7 million in the cost of land, house and condominium sales, $3.4 million in hotel and casino operating expenses, and $3.2 million in general and administrative expenses, partially offset by decreases of $2.2 million in depreciation, depletion and amortization and $0.1 million in property expenses. The increase in interest expense is primarily attributable to interest on senior notes issued by us in May 2004 and February 2005, respectively. The increase in hotel and resort operating expenses is primarily due to the Grand Harbor acquisition. The increase in costs of land, house and condominium sales is due to increased sales, as noted above. The increase in hotel and casino operating expenses is primarily attributable to increased costs associated with increased revenues. The increase in general and administrative expenses is primarily attributable to expenses incurred by NEG in connection with the increase in NEG management fees, legal fees, the addition of Grand Harbor and state and local franchise taxes in connection with the 2004 property sales.

Operating income increased during the three months ended March 31, 2005 by $4.8 million as compared to the same period in 2004 as detailed above.

Earning from land, house and condominium operations decreased by $0.4 million in the three months ended March 31, 2005 compared to the same period in 2004 due to a decrease in margins on units sold.

Earning from hotel and casino operating properties increased by $4.4 million during the three months ended March 31, 2005 due to increased revenues throughout the properties.

A gain on property transactions from continuing operations of $0.2 million was recorded in the three months ended March 31, 2005 as compared to $6.0 million in the same period in 2004.

Other losses of $0.2 million were recorded in the three months ended March 31, 2005. There were no significant losses in 2004.

A gain on sale of marketable equity securities of $28.9 million was recorded in the three months ended March 31, 2004. There were no such gains in the comparable period of 2005.

Unrealized gains on securities sold short of $21.7 million were recorded in the three months ended March 31, 2005. There were no such gains in 2004.

Income from continuing operations before income taxes decreased by $18.2 million in the three months ended March 31, 2005 as compared to the same period in 2004 as detailed above.

Income tax expense of $4.8 million was recorded in the three months ended March 31, 2005 as compared to $6.0 million in the same period in 2004. Income tax expense was recorded by our corporate subsidiaries, NEG and American Casino.

Income from continuing operations decreased by $17.0 million in the three months ended March 31, 2005 as compared to the same period in 2004 as detailed above.

Income from discontinued operations increased by $9.5 million in the three months ended March 31, 2005, as compared to the same period in 2004 due to gains on property dispositions.

Net earnings for the the three months ended March 31, 2005 decreased by $7.5 million as compared to the three months ended March 31, 2004, primarily due to decreased gain on sales of real estate from continuing operations ($5.9 million) and decreased gain on sale of marketable equity securities ($28.9 million) partially offset by unrealized gains on securities sold short ($21.7 million) and increased income from discontinued operations ($9.5 million).

Calendar Year 2004 Compared to Calendar Year 2003

Gross revenues increased by $117.5 million, or 30.2%, during 2004 as compared to 2003. This increase reflects increases of $37.5 million in oil and gas operating revenues, $37.1 million in hotel and casino operating revenues, $21.8 million in interest income on U.S. government and agency obligations and other investments, $13.3 million in land, house and condominium sales, $4.3 million in accretion of investment in NEG Holding LLC, $3.8 million in hotel and resort operating income, $0.3 million in NEG management fees, $1.4 million in equity in earnings of GB Holdings, $0.8 million in rental income, and $0.4 million in dividend and other income. These increases were partially offset by a decrease of $3.2 million in interest income on financing leases. The increase in oil and gas operating income was due to a full year of income for TransTexas compared to four months in 2003. The increase in hotel and casino operating income is primarily due to an increase in casino, hotel, and food and beverage revenues. The increase in interest income on U.S. government and agency obligations and other investments is primarily due to the repayment of two mezzanine loans, on which interest was accruing, and increased interest income from other investments. The increase in land, house and condominium sales is primarily due to sales of higher priced units. The increase in NEG management

fees is primarily due to management fees received from Panaco. NEG entered into a management agreement with Panaco in November 2004. The decrease in interest income on financing leases is primarily due to property sales and reclassifications.

Expenses increased by $92.3 million, or 28.3%, during 2004, as compared to 2003. This increase reflects increases of $22.6 million in interest expense, $10.7 million in hotel and casino operating expenses, $9.3 million in cost of land, house and condominium sales, $8.8 million in oil and gas operating expenses, $6.9 million in general and administrative expenses, $27.7 million in depreciation, depletion and amortization, $4.0 million in hotel and resort operating expenses and $2.4 million in provision for loss on real estate. These increases were partially offset by a decrease of $0.1 million in property expenses. The increase in interest expense is primarily attributable to interest on the $215 million principal amount of 7.85% senior secured notes issued by American Casino, the $353 million principal amount of $8^{1}/8$% senior notes issued by us in May 2004 and interest expense pertaining to preferred limited partnership pay-in-kind distribution. The increase in hotel and casino operating expenses is primarily attributable to increased costs associated with increased revenues. The increase in the land, house and condominium expenses is primarily attributable to increased sales as discussed above. The increase in oil and gas operating expenses of $8.8 million was due to a full year of expenses in 2004 compared to four months in 2003. The increase in general and administrative expenses is primarily attributable to expenses incurred in connection with the increase in NEG management fees and as a result of the Grand Harbor acquisition in July 2004. The increase in depreciation, depletion and amortization is primarily due to increased depreciation and amortization with respect to American Casino and a full year of depletion with respect to TransTexas compared to four months in 2003.

Operating income increased during 2004 by $25.3 million, or 40.9%, to $87.2 million from $61.9 million in 2003, as detailed above.

Earnings from land, house and condominium operations increased by $4.0 million or 96.0% to $8.1 million in 2004 due to sales of higher priced units. Based on current information, sales are expected to decrease in early 2005. However, the Company currently expects that the effects of the acquisition of Grand Harbor, completed in July 2004, and the approval in March 2004 of a 35 unit sub-division in Westchester County, New York, should provide increased earnings from these operations in the second half of 2005.

Earnings from hotel and casino operating properties increased by $26.4 million, or 57.5%, to $72.4 million during 2004 due to increased revenues at each of our three properties.

Earnings from oil and gas operating properties increased by $28.7 million, or 181.0% to $44.6 million.

Gains on sales of property transactions and other assets from continuing operations increased by $1.3 million or 23.6%, to $6.9 million, in 2004.

A gain on sale of marketable debt securities of $40.1 million was recorded in 2004, as compared to a gain of $2.6 million in 2003.

A write-down of marketable equity and debt securities and other investments of $19.8 million was recorded in 2003. There was no such write-down in 2004.

Unrealized losses on securities sold short of $23.6 million was recorded in 2004. There were no such losses in 2003. At March 1, 2005, the $23.6 million of unrealized losses has been reversed and a net gain of $3 million recorded.

An impairment loss on equity interest in GB Holdings, Inc. of $15.6 million was recorded in 2004. The impairment reflects the price, $12 million, subject to increases up to $6 million based upon Atlantic Holdings meeting earnings targets in 2005 and 2006, used in the agreement to purchase, from

an affiliate of Mr. Icahn, shares of GB Holdings common stock representing approximately 41.2% of the outstanding GB Holdings common stock. The purchase price pursuant to the agreement was less than our carrying value, approximately $26.2 million, for the approximately 36.3% of the outstanding GB Holdings common stock that we own. There was no such loss in 2003.

A severance tax refund of $4.5 million was received in 2004. No such refund was received in 2003.

Minority interest in the net earnings of TransTexas was $0.8 million in 2004 as compared to $1.3 million during 2003.

Income from continuing operations before income taxes increased by $49.5 million in 2004 as compared to 2003, as detailed above.

Income tax expense of $17.3 million was recorded in 2004 as compared to a $16.8 million income tax benefit in 2003 due to a reduction in the tax valuation allowance in 2003. Income tax expense was recorded by our corporate subsidiaries NEG, TransTexas and American Casino.

Income from continuing operations increased by $15.5 million, or 23.5%, to $81.4 million in 2004.

Income from discontinued operations increased by $71.7 million to $82.7 million in 2004. This reflects our decision to capitalize on favorable real estate markets and the mature nature of our commercial real estate portfolio, which resulted in gains on property dispositions.

Net earnings for 2004 increased by $87.2 million, or 113.3%, to $164.1 million. This primarily was attributable to increased income from discontinued operations ($71.7 million), increased gain on marketable debt securities ($37.6 million), increased net oil and gas operating income ($28.7 million), increased net hotel and casino operating income ($26.4 million) and increased interest income ($21.8 million). These gains were partially offset by increased depreciation, depletion and amortization ($27.7 million) increased interest expense ($22.6 million), increase in unrealized losses on securities sold short ($23.6 million), increased income tax expense ($34.1 million) and impairment loss on equity interest in GB Holdings, Inc. ($15.6 million). Net earnings in 2003 also was affected by a write down of other investments of $19.8 million.

Upon completion of the acquisitions described in Note 29 of the consolidated financial statements, the Company will consolidate the financial statements of NEG Holding, Panaco, and GB Holdings. Certain intercompany transactions will be eliminated. As a result, certain intercompany transactions will be eliminated, including, among others, the equity interest in GB Holdings for which we recorded an impairment loss in 2004, and NEG management fees.

Calendar Year 2003 Compared to Calendar Year 2002

Gross revenues decreased by $46.0 million, or 10.6%, during 2003 as compared to 2002. This decrease reflects decreases of (1) $62.8 million in land, house and condominium sales, (2) $8.0 million in interest income on U.S. government and agency obligations and other investments, (3) $3.8 million in equity in earnings of GB Holdings, Inc., (4) $2.7 million in accretion of investment in NEG Holding, (5) $1.6 million in financing lease income, (6) $1.0 million in NEG management fee (7) $0.5 million in hotel and resort operating income, partially offset by increases of $20.9 million in oil and gas operating income, $12.8 million in hotel and casino operating income, $0.2 million in rental income, $0.5 million in dividend and other income. The decrease in land, house and condominium sales is primarily due to a decrease in the number of units sold, as the Grassy Hollow, Gracewood and Stone Ridge properties were depleted by sales. During 2003, Hammond Ridge received necessary approvals and, along with Penwood, have commenced lot sales. The decrease in interest income on U.S. government and agency obligations and other investments is primarily attributable to the prepayment of a loan to Mr. Icahn in 2003 and a decline in interest rates on U.S. Government and Agency obligations as higher rate bonds were called in 2002. The decrease in equity in earnings of GB Holdings, Inc. is due to decreased casino

revenue primarily attributable to a reduction in the number of table games as new slot machines were added in 2002. This business strategy had a negative effect on casino operations and was changed in 2003 to focus on the mid to high-end slot customer with a balanced table game business. The decrease in accretion of investment in NEG Holding is primarily attributable to priority distributions received from NEG Holding in 2003. The decrease in financing lease income is the result of lease expirations, reclassifications of financing leases and normal financing lease amortization. The decrease in NEG management fee was due to a decrease in costs associated with NEG. The decrease in rental income is primarily attributable to property dispositions. The increase in hotel and casino operating income is primarily attributable to an increase in hotel, food and beverage revenues and a decrease in promotional allowances. The average daily room rate, or ADR, at the Stratosphere increased $3 to $51 and percentage occupancy increased approximately 0.2% to 89.8%. The ADR at Arizona Charlie's Decatur decreased $1 to $43 and percentage occupancy increased 10.9% to 85.3%. The ADR at Arizona Charlie's Boulder increased less than $1 to $43 and percentage occupancy increased 0.5% to 55.7%.

Expenses decreased by $28.5 million, or 8.0%, during 2003 as compared to 2002. This decrease reflects decreases of $45.5 million in the cost of land, house and condominium sales, $1.8 million in hotel and resort operating expenses, $1.1 million in hotel and casino operating expenses and $2.5 million in provision for loss on real estate, partially offset by increases of $5.0 million in oil and gas operating expenses, $0.6 million in rental property expenses and $16.9 million in depreciation, depletion and amortization. The decrease in the cost of land, house and condominium sales is due to decreased sales. Costs as a percentage of sales decreased from 72% in 2002 to 69% in 2003. The decrease in hotel and resort operating expenses is due to a decrease in payroll and related expenses. The decrease in hotel and casino operating expenses is primarily attributable to a decrease in selling, general and administrative expenses. Costs as a percentage of sales decreased from 87% in 2002 to 83% in 2003. A provision for loss on real estate of $0.8 million was recorded in 2003 as compared to $3.2 million in 2002. In 2002, there were more properties vacated due to tenant bankruptcies than in 2003. The increase in oil and gas operating expenses was due to no activity during 2002. The increase in depreciation, depletion and amortization was due to the inclusion of TransTexas in our operating results for the four months in 2003.

Operating income decreased during 2003 by $17.4 million compared to 2002 as detailed above.

Earnings from land, house and condominium operations decreased significantly in 2003 compared to 2002 due to a decline in inventory of completed units available for sale. Based on current information, sales will increase moderately during 2004. However, municipal approval of land inventory or the purchase of approved land is required to continue this upward trend into 2005 and beyond.

Earnings from hotel, casino and resort properties could be constrained by recessionary pressures, international tensions and competition.

Earnings from oil and gas operations were $45.4 million in 2003 as compared to $33.4 million in 2002. The increase was due to the inclusion of TransTexas in our operating results in 2003.

Gain on property transactions from continuing operations decreased by $1.9 million during 2003 as compared to 2002 due to the size and number of transactions.

A loss on sale of other assets of $1.5 million was recorded in 2003 as compared to $0.4 million loss in 2002.

A write-down of marketable equity and debt securities and other investments of $19.8 million, pertaining to our investment in the Philip notes, was recorded in 2003 as compared to a write-down of $8.5 million in 2002. These write downs relate to our investment in Philip Services Corp., which filed for bankruptcy protection in June 2003.

A write-down of a limited partnership investment of $3.8 million was recorded in 2002. There was no such write-down in 2003.

A gain on sale of marketable equity securities of $2.6 million was recorded in 2003. There was no such gain in 2002.

Minority interest in the net earnings of Stratosphere Corporation was $1.9 million during 2002. As a result of the acquisition of the minority interest in December 2002, there was no minority interest in Stratosphere in 2003 or thereafter. Minority interest in the net earnings of TransTexas was $1.3 million during 2003.

Income from continuing operations before income taxes decreased by $24.7 million in 2003 as compared to 2002, as detailed above.

An income tax benefit of $16.8 million was recorded in 2003 as compared to an expense of $10.1 million in 2002. The effective tax rate on earnings of taxable subsidiaries was positively affected in 2003 by a reduction in the valuation allowance in deferred tax assets. We expect our effective tax rate on earnings of taxable subsidiaries to increase significantly in 2004.

Income from continuing operations increased by $2.1 million in 2003 as compared to 2002, as detailed above.

Income from discontinued operations increased by $4.1 million in 2003 as compared to 2002, primarily due to gains on property dispositions.

Net earnings for 2003 increased by $6.2 million as compared to 2002 primarily due to oil and gas net operating income of $15.9 million in 2003, decreased income tax expense of $26.8 million, decreased write-down of limited partnership interests of $3.8 million, increased earnings from hotel and casino operations of $13.9 million, increased gain on the sale of marketable equity securities of $2.6 million and an increase in income from discontinued operations of $4.1 million which was partially offset by an increase in depreciation, depletion and amortization of $16.9 million, an increase in the write-down of marketable equity and debt securities and other investments of $11.3 million, decreased earnings from land, house and condominium operations of $17.2 million, decreased interest income of $8.0 million and decreased equity in earnings of GB Holdings of $3.8 million.

Liquidity and Capital Resources

Net cash provided by operating activities was $37.0 million for the three months ended March 31, 2005 as compared to $39.3 million in the comparable period of 2004. This decrease was primarily due to an increase in restricted cash ($8.7 million), an increase in due from brokers ($2.5 million), a decrease in accounts payable and accrued expenses ($11.6 million), and a decrease in discontinued operations ($2.4 million), partially offset by an increase in cash flow from other operations ($0.1 million), a decrease in receivables and other assets ($14.1 million), a decrease in land and construction-in-progress ($6.4 million), and an increase in deferred income tax expense ($2.3 million).

Net cash provided by operating activities was $98.0 million for 2004 as compared to $32.9 million for 2003. This increase of $65.1 million was primarily due to an increase in oil and gas operations ($28.7 million), hotel and casino operations ($26.4 million), an increase in interest income ($21.8 million), repayment of accounts payable and accrued expenses in 2003 and increased accounts payable and accrued expenses in 2004 ($134.6 million) and an increase in cash flow from other operations ($10.0 million), partially offset by an increase in interest expense ($22.6 million), an increase in due from brokers ($123.0 million) and an increase in receivables and other assets ($14.2 million).

The following table reflects, at March 31, 2005, our contractual cash obligations, subject to certain conditions, due over the indicated periods and when they come due (in $ millions):

	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
Mortgage payable	$ 4.2	$ 8.9	$ 29.3	$ 37.8	$ 80.2
Acquisition of TransTexas	180.0	—	—	—	180.0
Senior secured notes payable	—	—	—	215.0	215.0
Senior unsecured notes payable	—	—	—	833.0	833.0
Senior debt interest	78.3	159.5	159.5	211.3	608.6
Construction and development obligations	44.5	15.8	—	—	60.3
Total	$ 307.0	$ 184.2	$ 188.8	$ 1,297.1	$ 1,977.1

Mortgages

During the three months ended March 31, 2005 and 2004, approximately $1.0 million and $1.7 million, respectively, of mortgage principal amounts were repaid. During the years ended December 31, 2004 and 2003, approximately $5.2 million and $6.5 million, respectively, of mortgage principal were repaid. These amounts do not include mortgage debt repaid in connection with sales of real estate. In 2004, mortgage financing proceeds were $10.0 million on commercial condo units located New York City. In May 2003, we obtained mortgage financing in the principal amount of $20.0 million on a distribution facility located in Windsor Locks, Connecticut. We intend to use asset sale, financing and refinancing proceeds for new investments.

Long-Term Debt

In January 2004, ACEP issued senior secured notes due 2012. The notes, in the aggregate principal amount of $215.0 million, bear interest at the rate of 7.85% per annum. ACEP used the proceeds of the offering for the Arizona Charlie's acquisitions, to repay intercompany indebtedness and for distributions to AREH. ACEP also has a $20.0 million credit facility. At December 31, 2004, there were no borrowings under the credit facility. The restrictions imposed by ACEP's senior secured notes and the credit facility likely will preclude our receiving payments from the operations of our principal hotel and gaming properties. ACEP accounted for 67% of our revenues and 34% of our operating income in 2004.

ACEP's 7.85% senior secured notes due 2012 restrict the payment of cash dividends or distributions by ACEP, the purchase of its equity interests, the purchase, redemption, defeasance or acquisition of debt subordinated to ACEP's notes and investments as "restricted payments." ACEP's notes also prohibit the incurrence of debt, or the issuance of disqualified or preferred stock, as defined by ACEP, with certain exceptions, provided that ACEP may incur debt or issue disqualified stock if, immediately after such incurrence or issuance, the ratio of consolidated cash flow to fixed charges (each as defined) for the most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional indebtedness is incurred or disqualified stock or preferred stock is issued would have been at least 2.0 to 1.0, determined on a pro forma basis giving effect to the debt incurrence or issuance. As of March 31, 2005, such ratio was 1.1 to 1.0. The ACEP notes also restrict the creation of liens, the sale of assets, mergers, consolidations or sales of substantially all of its assets, the lease or grant of a license, concession, other agreements to occupy, manage or use our assets, the issuance of capital stock of restricted subsidiaries and certain related party transactions. The ACEP notes allow it to incur indebtedness, among other things, of up to $50 million under credit facilities, non-recourse financing of up to $15 million to finance the construction, purchase or lease of personal or real property used in its business, permitted affiliate subordinated indebtedness (as defined), the issuance of additional 7.85%

senior secured notes due 2012 in an aggregate principal amount not to exceed 2.0 times net cash proceeds received from equity offerings and permitted affiliate subordinated debt, and additional indebtedness of up to $10.0 million.

Additionally, ACEP's senior secured revolving credit facility allows for borrowings of up to $20.0 million, including the issuance of letters of credit of up to $10.0 million. Loans made under the senior secured revolving facility will mature and the commitments under them will terminate in January 2008. At March 31, 2005, there were not any borrowings or letters of credit outstanding under the facility. The facility contains restrictive covenants similar to those contained in the 7.85% senior secured notes due 2012. In addition, the facility requires that, as of the last date of each fiscal quarter, ACEP's ratio of net property, plant and equipment for key properties, as defined, to consolidated first lien debt be not less than 5.0 to 1.0 and ACEP's ratio of consolidated first lien debt to consolidated cash flow not be more than 1.0 to 1.0. At March 31, 2005, these ratios were 86.3 to 1.0 and 0.0 to 1.0, respectively.

On May 12, 2004, we and AREP Finance issued senior notes due 2012. The notes, in the aggregate principal amount of $353.0 million, and priced at 99.266% of principal amount, bear interest at a rate of $8^{1}/8$% per annum. The notes are guaranteed by AREH. Net proceeds from the offering have been and will continue to be used for general business purposes, including to pursue our primary business strategy of acquiring undervalued assets in either our existing lines of business or other businesses and to provide additional capital to grow our existing businesses.

On February 7, 2005, we and AREP Finance issued senior notes due 2013. The notes, in the aggregate principal amount of $480 million, bear interest at a rate of $7^{1}/8$% per annum. The notes are guaranteed by AREH. Net proceeds from the offering will be used to fund the acquisition of TransTexas, to pay related fees and expenses, and for general business purposes, including to pursue our primary business strategy of acquiring undervalued assets in either our existing lines of business or other businesses and to provide additional capital to grow our existing businesses.

Our $8^{1}/8$% senior notes due 2012 and $7^{1}/8$% notes due 2013 restrict the payment of cash dividends or distributions, the purchase of equity interests or the purchase, redemption, defeasance or acquisition of debt subordinated to the $8^{1}/8$% senior notes due 2012 and $7^{1}/8$% notes due 2013. The notes also restrict the incurrence of debt, or the issuance of disqualified stock, as defined, with certain exceptions, provided that we may incur debt or issue disqualified stock if, immediately after such incurrence or issuance, the ratio of the aggregate principal amount of all outstanding indebtedness of AREP and its subsidiaries on a consolidated basis to the tangible net worth of AREP and its subsidiaries on a consolidated basis would have been less than 1.75 to 1.0. At March 31, 2005, such ratio was 0.76 to 1.0. In addition, both issues of notes require that on each quarterly determination date that the Fixed Charge Coverage Ratio of us and the guarantor of the notes (currently only AREH) for the four consecutive fiscal quarters most recently completed prior to such quarterly determination date be at least 1.5 to 1.0. For the four quarters ended March 31, 2005, such ratio was 2.44 to 1.0. If the ratio is less than 1.5 to 1.0, we will be deemed to have satisfied this test if there is deposited cash, which together with cash previously deposited for such purpose and not released, equal to the amount of interest payable on the notes for one year. If at any subsequent quarterly determination date, the ratio is at least 1.5 to 1.0, such deposited funds will be released to us. The notes also require, on each quarterly determination date, that the ratio of total unencumbered assets, as defined, to the principal amount of unsecured indebtedness, as defined, be greater than 1.5 to 1.0 as of the last day of the most recently completed fiscal quarter. As of March 31, 2005, such ratio was 2.90 to 1.0. The notes also restrict the creation of liens, mergers, consolidations and sales of substantially all of our assets, and transactions with affiliates. As of March 31, 2005, based upon these tests, we and AREH could have incurred up to approximately $1.5 billion of additional indebtedness.

The operating subsidiary of NEG Holding, of which we have agreed to acquire a membership interest, has a credit agreement which contains covenants that have the effect of restricting dividends or distributions. These, together with the ACEP indenture and the indenture governing the notes, likely will preclude our receiving payments from the operations of our principal hotel and casino and certain of our oil and gas properties.

Asset Sales and Purchases

In the three months ended March 31, 2005, we sold four rental estate properties and a golf resort for approximately $51.9 million which were encumbered by mortgage debt of approximately $10.7 million that was repaid from the sale proceeds. Net proceeds from the sale or disposal of portfolio properties totaled approximately $41.2 million in the three months ended March 31, 2005. During the comparable period of 2004, net proceeds totalled approximately $25.3 million.

Of the five properties, we sold one financing lease property for approximately $8.4 million encumbered by mortgage debt of approximately $3.8 million. The carrying value of this property was approximately $8.2 million; therefore, we recognized a gain on sale of approximately $0.2 million in the three months ended March 31, 2005, which is included in income from continuing operations. We sold four operating properties for approximately $43.5 million encumbered by mortgage debt of approximately $6.9 million. The carrying value of these properties was approximately $24.8 million. We recognized a gain on sale of approximately $18.7 million in the three months ended March 31, 2005, which is included in income from discontinued operations.

During the year ended December 31, 2004, we sold 57 rental real estate properties for approximately $245.4 million, which were encumbered by mortgage debt of approximately $93.8 million which was repaid from the sales proceeds. As of December 31, 2004, we had entered into conditional sales contracts or letters of intent for 15 additional rental real estate properties, all of which contracts or letters of intent are subject to purchaser's due diligence and other closing conditions. Selling prices for the properties covered by the contracts or letters of intent would total approximately $97.9 million. These properties are encumbered by mortgage debt of approximately $36.0 million.

Net proceeds from the sale or disposal of portfolio properties totaled approximately $151.6 million in the year ended December 31, 2004. During 2003, net sales proceeds totaled approximately $20.6 million.

At March 31, 2005, we had 11 properties under contract or as to which letters of intent had been executed by potential purchasers, all of which contracts or letters of intent are subject to purchaser's due diligence and other closing conditions. Selling prices for the properties covered by the contracts or letters of intent would total approximately $45.5 million. These properties are encumbered by mortgage debt of approximately $25.3 million.

Capital Expenditures

Capital expenditures for real estate, oil and gas operations, hotel and casino and hotel and resort operations were approximately $4.8 million and $1.7 million during the three months ended March 31, 2005 and 2004, respectively, and $63.8 million and $34.0 million during the years ended December 31, 2004 and 2003, respectively. In the year ended December 31, 2004, we acquired a property for approximately $14.6 million, a hotel and resort property for approximately $16.5 million and development property for approximately $62.2 million, the latter two acquired in the Grand Harbor acquisition.

Leases

In 2003, 17 leases covering 17 rental real estate properties and representing approximately $2.2 million in annual rentals expired. Twelve leases originally representing $1.6 million in annual rental income were renewed for $1.4 million in annual rentals. Such renewals are generally for a term of five years. Five properties with annual rental income of $0.6 million were not renewed.

In 2004, 11 leases covering 11 rental real estate properties and representing approximately $1.8 million in annual rentals expired. Eight leases representing $1.5 million in annual rental income were renewed for $1.5 million in annual rentals. Such renewals are generally for a term of five years. Three properties with annual rentals of $0.3 million were not renewed.

In 2005, 14 leases covering 24 rental real estate properties representing approximately $3.6 million in annual rentals are scheduled to expire. Six leases representing approximately $2.9 million in annual rentals were renewed for approximately $2.9 million. Such renewals are generally for a term of 10 years. Three properties with annual rentals of approximately $0.2 million have not been renewed. The status of five properties with annual rentals of approximately $0.5 million has not yet been determined.

Distributions

On March 31, 2004, we distributed to holders of record of our preferred units, as of March 12, 2004, 489,657 additional preferred units. Pursuant to the terms of the preferred units, on March 4, 2005, we declared our scheduled annual preferred unit distribution payable in additional preferred units at the rate of 5% of the liquidation preference of $10.00. On March 31, 2005, we distributed to holders of record, as of March 15, 2005, 514,133 additional preferred units. In March 2005, the number of authorized preferred units was increased to 10,900,000.

Our preferred units are subject to redemption at our option on any payment date, and the preferred units must be redeemed by us on or before March 31, 2010. The redemption price is payable, at our option, subject to the indenture, either all in cash or by the issuance of depositary units, in either case, in an amount equal to the liquidation preference of the preferred units plus any accrued but unpaid distributions thereon.

Cash and Cash Equivalents

Our cash and cash equivalents and investment in U.S. government and agency obligations increased by $455.1 million during the three months ended March 31, 2005 primarily due to proceeds from the issuance of our 7 1/8% senior notes due 2013 ($474.0 million), property sales proceeds ($41.2 million), cash provided by operations ($27.3 million) and repayment by affiliates of debt securities ($2.7 million), partially offset by purchase of equity securities ($66.3 million), repayment of affiliate debt ($16.6 million), capital expenditures ($4.8 million) and other ($6.4 million).

Our cash and cash equivalents and investment in U.S. government and agency obligations increased by $305.3 million during the year ended December 31, 2004 primarily due to proceeds from the issuance of our 8 1/8% senior notes due 2012 and ACEP's 7.85% senior secured notes due 2012 in the aggregate ($565.4 million), property sales proceeds ($151.6 million), proceeds from the sale of marketable equity in the aggregate and debt securities ($90.6 million), repayment of mezzanine loans ($49.1 million), cash provided by operations ($98.0 million), guaranteed payment from NEG Holding ($16.0 million), proceeds from mortgages payable ($10.0 million) and proceeds from the sale of other assets ($3.8 million) partially offset by the purchase of debt securities ($245.2 million), purchase of the Arizona Charlies' ($125.9 million), the Grand Harbor and Oak Harbor acquisition ($78.6 million), purchase of debt securities of affiliates ($65.5 million), purchase of Atlantic Holdings debt ($36 million), repayment of affiliate debt ($25.0 million), capital expenditures ($63.8 million), rental real estate acquisitions ($14.6 million), periodic principal payments ($14.6 million) and other ($10.0 million).

Of our cash and cash equivalents at December 31, 2004, approximately $75.2 million is at ACEP. The terms of ACEP's 7.85% senior secured notes and its revolving credit facility restrict dividends and distributions to us, as well as redemptions of equity interests and other transactions that would make the cash available to AREP and its other subsidiaries.

We received net proceeds of approximately $474 million from the issuance, in February 2005, of our $7^1/8$% senior notes due 2013. Our cash will be used to fund the $180 million acquisition of TransTexas, and for general business purposes, including to pursue our primary business strategy of acquiring undervalued assets in either our existing lines of business or other businesses and to provide additional capital to grow our businesses.

Acquisitions

On April 6, 2005, we acquired 100% of the equity of TransTexas Gas Corporation, on oil and gas exploration and production company, for a purchase price of $180.0 million in cash.

During December 2004, we acquired the following:

- $27.5 million aggregate principal amount of term notes issued by TransTexas, or the TransTexas Notes for $28.2 million in cash, which included $0.7 million of accrued interest through December 6, 2004;

- All of the membership interests of Mid River, the assets of which consist of $38.0 million principal amount of term loans outstanding under the term loan and security agreement, dated as of November 16, 2004, among Panaco, Inc. as borrower, the lenders (as defined therein) and Mid River as administrative agent, or the Panaco Debt, and $0.1 million of accrued interest, through December 6, 2004, for $38.1 million in cash; and

- $37.0 million principal amount of 3% notes due 2008 issued by Atlantic Coast Entertainment Holdings LLC, or Atlantic Holdings, or the Atlantic Holdings Notes, for $36.0 million in cash.

On May 26, 2004, ACEP acquired two Las Vegas hotels and casinos, Arizona Charlie's Decatur and Arizona Charlie's Boulder, from Mr. Icahn and an entity affiliated with Mr. Icahn, for aggregate consideration of $125.9 million. At the closing of those acquisitions, AREH transferred 100% of the common stock of Stratosphere to ACEP. As a result, ACEP owns and operates three gaming and entertainment properties in the Las Vegas metropolitan area.

In October 2003, pursuant to a purchase agreement dated as of May 16, 2003, we acquired all of the debt and 50% of the equity securities of NEG from entities affiliated with Mr. Icahn for an aggregate consideration of approximately $148.1 million plus approximately $6.7 million of accrued interest on the debt securities.

In July 2004, we acquired Grand Harbor and Oak Harbor, two waterfront communities in Vero Beach, Florida. The communities include three golf courses, a tennis complex, fitness center, beach club and an assisted living facility. In addition, we acquired approximately 400 acres of land to the north of Grand Harbor which currently has entitlements to build approximately 600 homes and an 18 hole golf course. The total purchase price was approximately $75.0 million.

In January 2004, we purchased a 34,422 square foot commercial condominium unit in New York City for approximately $14.5 million.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles, or GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Among others,

estimates are used when accounting for valuation of investments, recognition of casino revenues and promotional allowances and estimated costs to complete its land, house and condominium developments. Estimates and assumptions are evaluated on an ongoing basis and are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates.

We accounted for our acquisitions of NEG, TransTexas and the Arizona Charlie's hotels and casinos as assets transferred between entities under common control which requires that they be accounted for at historical costs similar to a pooling of interests. NEG's investment in NEG Holding constitutes a variable interest entity. In accordance with GAAP, we have determined that NEG is not the primary beneficiary of NEG Holding and therefore we do not consolidate NEG Holding in our consolidated financial statements.

We believe the following accounting policies are critical to our business operations and the understanding of results of operations and affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of

Long-lived assets held and used by us and long-lived assets to be disposed of, are reviewed for impairment whenever events or changes in circumstances, such as vacancies and rejected leases, indicate that the carrying amount of an asset may not be recoverable.

In performing the review for recoverability, we estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows, undiscounted and without interest charges, is less than the carrying amount of the asset an impairment loss is recognized. Measurement of an impairment loss for long-lived assets that we expect to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Commitments and Contingencies—Litigation

On an ongoing basis, we assess the potential liabilities related to any lawsuits or claims brought against us. While it is typically very difficult to determine the timing and ultimate outcome of such actions, we use our best judgment to determine if it is probable that we will incur an expense related to the settlement or final adjudication of such matters and whether a reasonable estimation of such probable loss, if any, can be made. In assessing probable losses, we make estimates of the amount of insurance recoveries, if any. We accrue a liability when we believe a loss is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertainties related to the eventual outcome of litigation and potential insurance recovery, it is possible that certain matters may be resolved for amounts materially different from any provisions or disclosures that we have previously made.

Marketable Equity and Debt Securities and Investment in U.S. Government and Agency Obligations

Investments in equity and debt securities are classified as either held-to-maturity or available for sale for accounting purposes. Investment in U.S. government and agency obligations are classified as available for sale. Available for sale securities are carried at fair value on our balance sheet. Unrealized holding gains and losses are excluded from earnings and reported as a separate component of partners' equity. Held-to-maturity securities are recorded at amortized cost.

A decline in the market value of any held-to-maturity security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is

charged to earnings and a new cost basis for the security is established. Dividend income is recorded when declared and interest income is recognized when earned.

Mortgages and Notes Receivable

We have generally not recognized any profit in connection with the property sales in which certain purchase money mortgages receivable were taken back. Such profits are being deferred and will be recognized when the principal balances on the purchase money mortgages are received.

We engage in real estate lending, including making second mortgage or secured mezzanine loans to developers for the purpose of developing single-family homes, luxury garden apartments or commercial properties. These loans are subordinate to construction financing and we target an interest rate in excess of 20% per annum. However interest is not paid periodically and is due at maturity or earlier from unit sales or refinancing proceeds. We defer recognition of interest income on mezzanine loans pending receipt of principal and interest payments.

Revenue Recognition

Revenue from real estate sales and related costs are recognized at the time of closing primarily by specific identification. We follow the guidelines for profit recognition set forth by Financial Accounting Standards Board (FASB) Statement No. 66, Accounting for Sales of Real Estate.

Casino Revenues and Promotional Allowances

We recognize revenues in accordance with industry practice. Casino revenue is recorded as the net win from gaming activities, the difference between gaming wins and losses. Casino revenues are net of accruals for anticipated payouts of progressive and certain other slot machine jackpots. Revenues include the retail value of rooms, food and beverage and other items that are provided to customers on a complimentary basis. A corresponding amount is deducted as promotional allowances. The cost of such complimentaries is included in "Hotel and casino operating expenses." We also reward customers, through the use of loyalty programs, with points based on amounts wagered, that can be redeemed for a specified period of time for cash. We deduct the cash incentive amounts from casino revenue.

Natural Gas Production Imbalances

We account for natural gas production imbalances using the sales method, whereby we recognize revenue on all natural gas sold to our customers notwithstanding the fact its ownership may be less than 100% of the natural gas sold. We record liabilities for imbalances greater than our proportionate share of remaining natural gas reserves.

Hedging Agreements

From time to time, we enter into commodity price swap agreements (the Hedge Agreements) to reduce our exposure to price risk in the spot market for natural gas. We follow Statement of Financial Accounting Standards No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*, which was amended by Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. These pronouncements established accounting and reporting standards for derivative instruments and for hedging activities, which generally require recognition of all derivatives as either assets or liabilities in the balance sheet at their fair value. The accounting for changes in fair value depends on the intended use of the derivative and its resulting designation. We elected not to designate these instruments as hedges for accounting purposes, accordingly both realized and unrealized gains and losses are included in oil and natural gas sales.

Oil and Natural Gas Properties

The Company utilizes the full cost method of accounting for its crude oil and natural gas properties. Under the full cost method, all productive and nonproductive costs incurred in connection with the acquisition, exploration and development of crude oil and natural gas reserves are capitalized and amortized on the units-of-production method based upon total proved reserves. The costs of unproven properties are excluded from the amortization calculation until the individual properties are evaluated and a determination is made as to whether reserves exist. Conveyances of properties, including gains or losses on abandonments of properties, are treated as adjustments to the cost of crude oil and natural gas properties, with no gain or loss recognized.

Under the full cost method, the net book value of oil and natural gas properties, less related deferred income taxes, may not exceed the estimated after-tax future net revenues from proved oil and natural gas properties, discounted at 10% per year (the ceiling limitation). In arriving at estimated future net revenues, estimated lease operating expenses, development costs, abandonment costs, and certain production related and ad-valorem taxes are deducted. In calculating future net revenues, prices and costs in effect at the time of the calculation are held constant indefinitely, except for changes, which are fixed and determinable by existing contracts. The net book value is compared to the ceiling limitation on a quarterly basis.

Accounting for Asset Retirement Obligations

We account for our asset retirement obligation under Statement of Financial Accounting Standards No. 143 (SFAS 143), *Accounting for Asset Retirement Obligations.* SFAS 143 provides accounting requirements for costs associated with legal obligations to retire tangible, long-lived assets. Under SFAS 143, an asset retirement obligation is needed at fair value in the period in which it is incurred by increasing the carrying amount for the related long-lived asset. In each subsequent period, the liability is accreted to its present value and the capitalized cost is depreciated over the useful life of the related asset.

Income Taxes

No provision has been made for federal, state or local income taxes on the results of operations generated by partnership activities as such taxes are the responsibility of the partners. Stratosphere Corporation, National Energy Group, Inc. and TransTexas Gas Corporation, our corporate subsidiaries, account for their income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Management periodically evaluates all evidence, both positive and negative, in determining whether a valuation allowance to reduce the carrying value of deferred tax assets is still needed. In 2004 and 2003, we concluded, based on the projected allocations of taxable income, that our corporate subsidiaries, NEG, Stratosphere and TransTexas, more likely than not will realize a partial benefit from their deferred tax assets and loss carryforwards. Ultimate realization of the deferred tax asset is dependent upon, among other factors, our corporate subsidiaries' ability to generate sufficient taxable income within the carryforward periods and is subject to change depending on the tax laws in effect in the years in which the carryforwards are used.

Properties

Properties held for investment, other than those accounted for under the financing method, are carried at cost less accumulated depreciation unless declines in the value of the properties are considered other than temporary at which time the property is written down to net realizable value. Properties held for sale are carried at the lower of cost or net realizable value. Such properties are no longer depreciated and their operations are included in discontinued operations. A property is classified as held for sale at the time we determine that the criteria in SFAS 144 have been met.

Trends and Other Uncertainties

General

Certain of our management are committed to the management of other businesses.

Certain of the individuals who conduct the affairs of American Property Investors, Inc. or API, including our chairman, Carl C. Icahn, and our chief executive officer, Keith A. Meister, are and will in the future be committed to the management of other businesses owned or controlled by Mr. Icahn and his affiliates. Accordingly, these individuals will not be devoting all of their professional time to the management of us, and conflicts may arise between our interests and the other entities or business activities in which such individuals are involved. Conflicts of interest may arise in the future as such affiliates and we may compete for the same assets, purchasers and sellers of assets or financings.

We may be subject to the pension liabilities of our affiliates.

Mr. Icahn, through certain affiliates, currently owns 100% of API and approximately 86.5% of our outstanding depositary units and preferred units. Applicable pension and tax laws make each member of a "controlled group" of entities, generally defined as entities in which there is at least an 80% common ownership interest, jointly and severally liable for certain pension plan obligations of any member of the controlled group. These pension obligations include ongoing contributions to fund the plan, as well as liability for any unfunded liabilities that may exist at the time the plan is terminated. In addition, the failure to pay these pension obligations when due may result in the creation of liens in favor of the pension plan or the Pension Benefit Guaranty Corporation, or the PBGC, against the assets of each member of the controlled group.

As a result of the more than 80% ownership interest in us by Mr. Icahn's affiliates, we and our subsidiaries, are subject to the pension liabilities of all entities in which Mr. Icahn has a direct or indirect ownership interest of at least 80%. One such entity, ACF Industries LLC, is the sponsor of several pension plans which are underfunded by a total of approximately $33.0 million on an ongoing actuarial basis and $149.0 million if those plans were terminated, as most recently reported by the plans' actuaries. These liabilities could increase or decrease, depending on a number of factors, including future changes in promised benefits, investment returns, and the assumptions used to calculate the liability. As members of the ACF controlled group, we would be liable for any failure of ACF to make ongoing pension contributions or to pay the unfunded liabilities upon a termination of the ACF pension plans. In addition, other entities now or in the future within the controlled group that includes us may have pension plan obligations that are, or may become, underfunded and we would be liable for any failure of such entities to make ongoing pension contributions or to pay the unfunded liabilities upon a termination of such plans.

The current underfunded status of the ACF pension plans requires ACF to notify the PBGC of certain "reportable events," such as if we cease to be a member of the ACF controlled group, or if we make certain extraordinary dividends or stock redemptions. The obligation to report could cause us to seek to delay or reconsider the occurrence of such reportable events.

Starfire Holding Corporation, which is 100% owned by Mr. Icahn, has undertaken to indemnify us and our subsidiaries from losses resulting from any imposition of pension funding or termination liabilities that may be imposed on us and our subsidiaries or our assets as a result of being a member of the Icahn controlled group. The Starfire indemnity provides, among other things, that so long as such contingent liabilities exist and could be imposed on us, Starfire will not make any distributions to its stockholders that would reduce its net worth to below $250.0 million. Nonetheless, Starfire may not be able to fund its indemnification obligations to us.

We are subject to the risk of possibly becoming an investment company.

Because we are a holding company and a significant portion of our assets consists of investments in companies in which we own less than a 50% interest, we run the risk of inadvertently becoming an investment company that is required to register under the Investment Company Act of 1940. Registered investment companies are subject to extensive, restrictive and potentially adverse regulation relating to, among other things, operating methods, management, capital structure, dividends and transactions with affiliates. Registered investment companies are not permitted to operate their business in the manner in which we operate our business, nor are registered investment companies permitted to have many of the relationships that we have with our affiliated companies.

To avoid regulation under the Investment Company Act, we monitor the value of our investments and structure transactions with an eye toward the Investment Company Act. As a result, we may structure transactions in a less advantageous manner than if we did not have Investment Company Act concerns, or we may avoid otherwise economically desirable transactions due to those concerns. In addition, events beyond our control, including significant appreciation or depreciation in the market value of certain of our publicly traded holdings, could result in our inadvertently becoming an investment company.

If it were established that we were an investment company, there would be a risk, among other material adverse consequences, that we could become subject to monetary penalties or injunctive relief, or both, in an action brought by the SEC, that we would be unable to enforce contracts with third parties or that third parties could seek to obtain rescission of transactions with us undertaken during the period it was established that we were an unregistered investment company.

We may become taxable as a corporation.

We operate as a partnership for federal income tax purposes. This allows us to pass through our income and deductions to our partners. We believe that we have been and are properly treated as a partnership for federal income tax purposes. However, the Internal Revenue Service, or IRS, could challenge our partnership status and we could fail to qualify as a partnership for past years as well as future years. Qualification as a partnership involves the application of highly technical and complex provisions of the Internal Revenue Code of 1986, as amended. For example, a publicly traded partnership is generally taxable as a corporation unless 90% or more of its gross income is "qualifying" income, which includes interest, dividends, real property rents, gains from the sale or other disposition of real property, gain from the sale or other disposition of capital assets held for the production of interest or dividends, and certain other items. We believe that in all prior years of our existence at least 90% of our gross income was qualifying income and we intend to structure our business in a manner such that at least 90% of our gross income will constitute qualifying income this year and in the future. However, there can be no assurance that such structuring will be effective in all events to avoid the receipt of more than 10% of non-qualifying income. If less than 90% of our gross income constitutes qualifying income, we may be subject to corporate tax on our net income at regular corporate tax rates. Further, if less than 90% of our gross income constituted qualifying income for past years, we may be subject to corporate level tax plus interest and possibly penalties. In addition, if we register under the Investment Company Act of 1940, it is likely that we would be treated as a corporation for U.S. federal

income tax purposes and subject to corporate tax on our net income at regular corporate tax rates. The cost of paying federal and possibly state income tax, either for past years or going forward, would be a significant liability and would reduce our funds available to make interest and principal payments on the notes.

Real Estate Operations

Our investment in property development may be more costly than anticipated.

We have invested and expect to continue to invest in unentitled land, undeveloped land and distressed development properties. These properties involve more risk than properties on which development has been completed. Unentitled land may not be approved for development. Undeveloped land and distressed development properties do not generate any operating revenue, while costs are incurred to develop the properties. In addition, undeveloped land and development properties incur expenditures prior to completion, including property taxes and development costs. Also, construction may not be completed within budget or as scheduled and projected rental levels or sales prices may not be achieved and other unpredictable contingencies beyond our control could occur. We will not be able to recoup any of such costs until such time as these properties, or parcels thereof, are either disposed of or developed into income-producing assets.

Competition for acquisitions could adversely affect us and new acquisitions may fail to perform as expected.

We seek to acquire investments that are undervalued. Acquisition opportunities in the real estate market for value-added investors have become competitive to source and the increased competition may negatively impact the spreads and the ability to find quality assets that provide returns that we seek. These investments may not be readily financeable and may not generate immediate positive cash flow for us. There can be no assurance that any asset we acquire, whether in the real estate sector or otherwise, will increase in value or generate positive cash flow.

We may not be able to sell our rental properties, which would reduce cash available for other purposes.

We are currently marketing for sale our rental real estate portfolio. As of March 31, 2005, we owned 67 rental real estate properties with a book value of approximately $164.8 million, individually encumbered by mortgage debt which aggregated approximately $80.2 million. As of March 31, 2005, we had entered into conditional sales contracts or letters of intent for 11 rental real estate properties. Selling prices for the properties covered by the contracts or letters of intent would total approximately $45.5 million. These properties are encumbered by mortgage debt of approximately $25.3 million. Generally, these contracts and letters of intent may be terminated by the buyer with little or no penalty. We may not be successful in obtaining purchase offers for our remaining properties at acceptable prices and sales may not be consummated. Many of our properties are net-leased to single corporate tenants, it may be difficult to sell those properties that existing tenants decline to re-let. Our attempt to market the real estate portfolio may not be successful. Even if our efforts are successful, we cannot be certain that the proceeds from the sales can be used to acquire businesses and investments at prices or at projected returns which are deemed favorable. From April 1, 2005 through May 31, 2005, we sold five of these rental real estate properties for approximately $3.1 million. These properties were unencumbered by mortgage debt.

We face potential adverse effects from tenant bankruptcies or insolvencies.

The bankruptcy or insolvency of our tenants may adversely affect the income produced by our properties. If a tenant defaults, we may experience delays and incur substantial costs in enforcing our rights as landlord. If a tenant files for bankruptcy, we cannot evict the tenant solely because of such bankruptcy. A court, however, may authorize a tenant to reject or terminate its lease with us.

We may be subject to environmental liability as an owner or operator of development and rental real estate.

Under various federal, state and local laws, ordinances and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances, pollutants and contaminants released on, under, in or from its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such substances. To the extent any such substances are found in or on any property invested in by us, we could be exposed to liability and be required to incur substantial remediation costs. The presence of such substances or the failure to undertake proper remediation may adversely affect the ability to finance, refinance or dispose of such property. We generally conduct a Phase I environmental site assessment on properties in which we are considering investing. A Phase I environmental site assessment involves record review, visual site assessment and personnel interviews, but does not typically include invasive testing procedures such as air, soil or groundwater sampling or other tests performed as part of a Phase II environmental site assessment. Accordingly, there can be no assurance that these assessments will disclose all potential liabilities or that future property uses or conditions or changes in applicable environmental laws and regulations or activities at nearby properties will not result in the creation of environmental liabilities with respect to a property.

Hotel and Casino Operations

The gaming industry is highly regulated. The gaming authorities and state and municipal licensing authorities have significant control over our operations.

Our properties currently conduct licensed gaming operations in Nevada. In addition, we have entered into an agreement to acquire shares of GB Holdings and shares of Atlantic Holdings that, together with shares we currently own, will result in our owning approximately 77.5% of the common stock of GB Holdings and approximately 58.3% of the common stock of Atlantic Holdings. Atlantic Holdings, through its wholly-owned subsidiary, owns and operates The Sands Hotel and Casino. Various regulatory authorities, including the Nevada State Gaming Control Board, Nevada Gaming Commission and the New Jersey Casino Control Commission, require our properties and The Sands Hotel and Casino to hold various licenses and registrations, findings of suitability, permits and approvals to engage in gaming operations and to meet requirements of suitability. These gaming authorities also control approval of ownership interests in gaming operations. These gaming authorities may deny, limit, condition, suspend or revoke our gaming licenses, registrations, findings of suitability or the approval of any of our current or proposed ownership interests in any of the licensed gaming operations conducted in Nevada and New Jersey, any of which could have a significant adverse effect on our business, financial condition and results of operations, for any cause they may deem reasonable. If we violate gaming laws or regulations that are applicable to us, we may have to pay substantial fines or forfeit assets. If, in the future, we operate or have an ownership interest in casino gaming facilities located outside of Nevada or New Jersey, we may also be subject to the gaming laws and regulations of those other jurisdictions.

The sale of alcoholic beverages at our Nevada properties is subject to licensing and regulation by the City of Las Vegas and Clark County, Nevada. The City of Las Vegas and Clark County have full power to limit, condition, suspend or revoke any such license, and any such disciplinary action may, and revocation would, reduce the number of visitors to our Nevada casinos to the extent the availability of alcoholic beverages is important to them. If our alcohol licenses become in any way impaired, it would reduce the number of visitors. Any reduction in our number of visitors will reduce our revenue and cash flow.

Rising operating costs for our gaming and entertainment properties could have a negative impact on our profitability.

The operating expenses associated with our gaming and entertainment properties could increase due to some of the following factors:

- potential changes in the tax or regulatory environment which impose additional restrictions or increase operating costs;
- our properties use significant amounts of electricity, natural gas and other forms of energy, and energy price increases may reduce our working capital;
- our Nevada properties use significant amounts of water and a water shortage may adversely affect our operations;
- an increase in the cost of health care benefits for our employees could have a negative impact on our profitability;
- some of our employees are covered by collective bargaining agreements and we may incur higher costs or work slow-downs or stoppages due to union activities;
- our reliance on slot machine revenues and the concentration of manufacturing of slot machines in certain companies could impose additional costs on us; and
- our insurance coverage may not be adequate to cover all possible losses and our insurance costs may increase.

We face substantial competition in the hotel and casino industry.

The hotel and casino industry in general, and the markets in which we compete in particular, are highly competitive.

- we compete with many world class destination resorts with greater name recognition, different attractions, amenities and entertainment options;
- we compete with the continued growth of gaming on Native American tribal lands;
- the existence of legalized gambling in other jurisdictions may reduce the number of visitors to our properties;
- certain states have legalized, and others may legalize, casino gaming in specific venues, including race tracks and/or in specific areas, including metropolitan areas from which we traditionally attract customers; and
- our properties also compete and will in the future compete with all forms of legalized gambling.

Many of our competitors have greater financial, selling and marketing, technical and other resources than we do. We may not be able to compete effectively with our competitors and we may lose market share, which could reduce our revenue and cash flow.

Economic downturns, terrorism and the uncertainty of war, as well as other factors affecting discretionary consumer spending, could reduce the number of our visitors or the amount of money visitors spend at our casinos.

The strength and profitability of our business depends on consumer demand for hotel-casino resorts and gaming in general and for the type of amenities we offer. Changes in consumer preferences or discretionary consumer spending could harm our business.

During periods of economic contraction, our revenues may decrease while some of our costs remain fixed, resulting in decreased earnings, because the gaming and other leisure activities we offer at our properties are discretionary expenditures, and participation in these activities may decline during economic downturns because consumers have less disposable income. Even an uncertain economic outlook may adversely affect consumer spending in our gaming operations and related facilities, as consumers spend less in anticipation of a potential economic downturn. Additionally, rising gas prices could deter non-local visitors from traveling to our properties.

The terrorist attacks which occurred on September 11, 2001, the potential for future terrorist attacks and wars in Afghanistan and Iraq have had a negative impact on travel and leisure expenditures, including lodging, gaming and tourism. Leisure and business travel, especially travel by air, remain particularly susceptible to global geopolitical events. Many of the customers of our properties travel by air, and the cost and availability of air service can affect our business. Furthermore, insurance coverage against loss or business interruption resulting from war and some forms of terrorism may be unavailable or not available on terms that we consider reasonable. We cannot predict the extent to which war, future security alerts or additional terrorist attacks may interfere with our operations.

Our hotels and casinos may need to increase capital expenditures to compete effectively.

Capital expenditures, such as room refurbishments, amenity upgrades and new gaming equipment, may be necessary from time to time to preserve the competitiveness of our hotels and casinos. The gaming industry market is very competitive and is expected to become more competitive in the future. If cash from operations is insufficient to provide for needed levels of capital expenditures, the competitive position of our hotels and casinos could deteriorate if our hotels and casinos are unable to raise funds for such purposes.

Increased state taxation of gaming and hospitality revenues could adversely affect our hotel and casinos' results of operations.

The casino industry represents a significant source of tax revenues to the various jurisdictions in which casinos operate. Gaming companies are currently subject to significant state and local taxes and fees in addition to normal federal and state corporate income taxes. Future changes in state taxation of casino gaming companies cannot be predicted and any such changes could adversely affect the operating results of our hotels and casino.

Oil and Gas

We face substantial risks in the oil and gas industry.

The exploration for and production of oil and gas involves numerous risks. The cost of drilling, completing and operating wells for oil or gas is often uncertain, and a number of factors can delay or prevent drilling operations or production, including:

- unexpected drilling conditions;
- pressure or irregularities in formation;
- equipment failures or repairs;
- fires or other accidents;
- adverse weather conditions;
- pipeline ruptures or spills; and
- shortages or delays in the availability of drilling rigs and the delivery of equipment.

The oil and gas industry is subject to environmental regulation by state and federal agencies.

The operations that we expect to acquire are affected by extensive regulation through various federal, state and local laws and regulations relating to the exploration for and development, production, gathering and marketing of oil and gas. Matters subject to regulation include discharge permits for drilling operations, drilling and abandonment bonds or other financial responsibility requirements, reports concerning operations, the spacing of wells, unitization and pooling of properties, and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and gas wells below actual production capacity in order to conserve supplies of oil and gas.

The operations that we expect to acquire are also subject to numerous environmental laws, including but not limited to, those governing management of waste, protection of water, air quality, the discharge of materials into the environment, and preservation of natural resources. Non-compliance with environmental laws and the discharge of oil, natural gas, or other materials into the air, soil or water may give rise to liabilities to the government and third parties, including civil and criminal penalties, and may require us to incur costs to remedy the discharge. Oil and gas may be discharged in many ways, including from a well or drilling equipment at a drill site, leakage from pipelines or other gathering and transportation facilities, leakage from storage tanks, and sudden discharges from oil and gas wells or explosion at processing plants. Hydrocarbons tend to degrade slowly in soil and water, which makes remediation costly, and discharged hydrocarbons may migrate through soil and water supplies or adjoining property, giving rise to additional liabilities. Laws and regulations protecting the environment have become more stringent in recent years, and may in certain circumstances impose retroactive, strict, and joint and several liabilities rendering entities liable for environmental damage without regard to negligence or fault. In the past, we have agreed to indemnify sellers of producing properties against certain liabilities for environmental claims associated with those properties. We cannot assure you that new laws or regulations, or modifications of or new interpretations of existing laws and regulations, will not substantially increase the cost of compliance or otherwise adversely affect our oil and gas operations and financial condition or that material indemnity claims will not arise with respect to properties that we acquire. While we do not anticipate incurring material costs in connection with environmental compliance and remediation, we cannot guarantee that material costs will not be incurred.

The operations that we expect to acquire depend upon financing or acquiring additional reserves.

We may experience difficulty finding and acquiring additional reserves and may be unable to compensate for the depletion of proved reserves.

The future success and growth of the operations that we expect to acquire depend upon the ability to find or acquire additional oil and gas reserves that are economically recoverable. Except to the extent that we conduct successful exploration or development activities or acquire properties containing proved reserves, our proved reserves will generally decline as they are produced. The decline rate varies depending upon reservoir characteristics and other factors. Future oil and gas reserves and production, and, therefore, cash flow and income will be highly dependent upon the level of success in exploiting current reserves and acquiring or finding additional reserves. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable, the ability to make the necessary capital investments to maintain or expand this asset base of oil and gas reserves could be impaired. Development projects and acquisition activities may not result in additional reserves. We may not have success drilling productive wells at economic returns sufficient to replace our current and future production. We may acquire reserves which contain undetected problems or issues that did not initially appear to be significant to us.

Difficulties in exploration and development could adversely affect our financial condition.

The costs of drilling all types of wells are uncertain, as are the quantity of reserves to be found, the prices that NEG Holding, TransTexas or Panaco will receive for the oil or natural gas, and the costs to operate the well. While each has successfully drilled wells, you should know that there are inherent risks in doing so, and, if we complete the acquisitions, those difficulties could materially affect our financial condition and results of operations. Also, just because we complete a well and begin producing oil or natural gas, we cannot assure you that we will recover our investment or make a profit.

Oil and gas prices are likely to be volatile.

The revenues, profitability and the carrying value of oil and gas properties that we have agreed to acquire are substantially dependent upon prevailing prices of, and demand for, oil and gas and the costs of acquiring, finding, developing and producing reserves. Historically, the markets for oil and gas have been volatile. Markets for oil and gas likely will continue to be volatile in the future. Prices for oil and gas are subject to wide fluctuations in response to: (1) relatively minor changes in the supply of, and demand for, oil and gas; (2) market uncertainty; and (3) a variety of additional factors, all of which are beyond our control. These factors include, among others:

- domestic and foreign political conditions;
- the price and availability of domestic and imported oil and gas;
- the level of consumer and industrial demand;
- weather, domestic and foreign government relations; and
- the price and availability of alternative fuels and overall economic conditions.

The production of each of NEG Holding, TransTexas and Panaco is weighted toward natural gas, making earnings and cash flow more sensitive to natural gas price fluctuations.

Operating hazards and uninsured risks are inherent to the oil and gas industry.

The oil and gas business involves a variety of operating risks, including, but not limited to, unexpected formations or pressures, uncontrollable flows of oil, natural gas, brine or well fluids into the environment (including groundwater contamination), blowouts, fires, explosions, pollution and other risks, any of which could result in personal injuries, loss of life, damage to properties and substantial losses. Although NEG Holding, TransTexas and Panaco carry insurance at levels we believe are reasonable, they are not fully insured against all risks. Losses and liabilities arising from uninsured or under-insured events could have a material adverse effect on their and our financial condition and operations.

Our use of hedging arrangements could adversely affect our results of operations.

NEG Holding and TransTexas typically hedge a portion of oil and gas production during periods when market prices for products are higher than historical average prices. During 2004, NEG Holding and TransTexas hedged 61% and 57%, respectively, of annual natural gas production and NEG Holding and TransTexas hedged 96% and 81%, respectively, of annual oil production.

Typically, NEG Holding, TransTexas and Panaco have used swaps, cost-free collars and options to put products to a purchaser at a specified price, or floor. In these transactions, NEG Holding, TransTexas and Panaco will usually have the option to receive from the counterparty to the hedge a specified price or the excess of a specified price over a floating market price. If the floating price

exceeds the fixed price, the hedging party is required to pay the counterparty all or a portion of this difference multiplied by the quantity hedged.

The oil and gas industry is highly competitive.

There are many companies and individuals engaged in the exploration for and development of oil and gas properties. Competition is particularly intense with respect to the acquisition of oil and gas producing properties and securing experienced personnel. We encounter competition from various oil and gas companies in raising capital and in acquiring producing properties. Many of our competitors have financial and other resources considerably larger than ours.

Investments

We may not be able to identify suitable investments, and our investments may not result in favorable returns or may result in losses.

Our partnership agreement allows us to take advantage of investment opportunities we believe exist outside of the real estate market. The equity securities in which we may invest may include common stocks, preferred stocks and securities convertible into common stocks, as well as warrants to purchase these securities. The debt securities in which we may invest may include bonds, debentures, notes, or non-rated mortgage-related securities, municipal obligations, bank debt and mezzanine loans. Certain of these securities may include lower rated or non-rated securities which may provide the potential for higher yields and therefore may entail higher risk and may include the securities of bankrupt or distressed companies. In addition, we may engage in various investment techniques, including derivatives, options and futures transactions, foreign currency transactions, "short" sales and leveraging for either hedging or other purposes. We may concentrate our activities by owning one or a few businesses or holdings, which would increase our risk. We may not be successful in finding suitable opportunities to invest our cash and our strategy of investing in undervalued assets may expose us to numerous risks.

Our investments may be subject to significant uncertainties.

Our investments may not be successful for many reasons including, but not limited to:

- fluctuation of interest rates;
- lack of control in minority investments;
- worsening of general economic and market conditions;
- lack of diversification;
- inexperience with non-real estate areas;
- fluctuation of U.S. dollar exchange rates; and
- adverse legal and regulatory developments that may affect particular businesses.

Quantitative and Qualitative Disclosure About Market Risk

The United States Securities and Exchange Commission requires that registrants include information about primary market risk exposures relating to financial instruments. Through our operating and investment activities, we are exposed to market, credit and related risks, including those described elsewhere herein. We may invest in debt or equity securities of companies undergoing restructuring or undervalued by the market, these securities are subject to inherent risks due to price fluctuations, and risks relating to the issuer and its industry, and the market for these securities may be less liquid and more volatile than that of higher rated or more widely followed securities.

Other related risks include liquidity risks, which arise in the course of our general funding activities and the management of our balance sheet. This includes both risks relating to the raising of funding with appropriate maturity and interest rate characteristics and the risk of being unable to liquidate an asset in a timely manner at an acceptable price. Real estate investments by their nature are often difficult or time-consuming to liquidate. Also, buyers of minority interests may be difficult to secure, while transfers of large block positions may be subject to legal, contractual or market restrictions. Other operating risks for us include lease terminations, whether scheduled terminations or due to tenant defaults or bankruptcies, development risks, and environmental and capital expenditure matters, as described elsewhere herein. Our mortgages payable are primarily fixed-rate debt and, therefore, are not subject to market risk.

We invest in U.S. Government and Agency obligations which are subject to interest rate risk. As interest rates fluctuate, we will experience changes in the fair value of these investments with maturities greater than one year. If interest rates increased 100 basis points, the fair value of these investments at December 31, 2004, would decline by approximately $200,000.

At March 31, 2005, we had a short position with respect to 2.5 million shares of common stock of a company in bankruptcy. If the price of the common stock increased by 10% from the price at that date, we would have incurred an additional loss of approximately $8.7 million with respect to that position.

Whenever practical, we employ internal strategies to mitigate exposure to these and other risks. We perform, on a case by case basis with respect to new investments, internal analyses of risk identification, assessment and control. We review credit exposures, and seek to mitigate counterparty credit exposure through various techniques, including obtaining and maintaining collateral, and assessing the creditworthiness of counterparties and issuers. Where appropriate, an analysis is made of political, economic and financial conditions, including those of foreign countries. Operating risk is managed through the use of experienced personnel. We seek to achieve adequate returns commensurate with the risk it assumes. We utilize qualitative as well as quantitative information in managing risk.

We are exposed to market risk from adverse changes in prices for oil and natural gas.

Our revenues, profitability, access to capital and future rate of growth are substantially dependent upon the prevailing prices of oil and natural gas. These prices are subject to wide fluctuations in response to relatively minor changes in supply and demand and a variety of additional factors beyond our control. From time to time, we have utilized hedging transactions with respect to a portion of its oil and gas production to achieve a more predictable cash flow, as well as to reduce exposure to price fluctuations. While hedging limits the downside risk of adverse price movements, it may also limit future revenues from favorable price movements. Because gains or losses associated with hedging transactions are included in oil and gas revenues when the hedged volumes are delivered, such gains and losses are generally offset by similar changes in the realized prices of commodities.

From time to time, TransTexas enters into commodity price swap agreements (the Hedge Agreements) to reduce its expose to price risk in the spot market for natural gas. The Company follows Statement of Financial Accounting Standards No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*, which was amended by Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. These pronouncements established accounting and reporting standards for derivative instruments and for hedging activities, which generally require recognition of all derivatives as either assets or liabilities in the balance sheet at their fair value. The accounting for changes in fair value depends on the intended use of the derivative and its resulting designation.

The following is a summary of natural gas and oil contracts entered into with Shell Trading (US) Company as of March 31, 2005.

Type contract	Production month	Volume per month	Fixed price	Floor	Ceiling
Fixed price	April-June 2004	300,000 MMBTU	$ 5.44	—	—
Fixed price	July-Sept 2004	300,000 MMBTU	$ 5.34	—	—
No cost collars	Oct-Dec 2004	300,000 MMBTU	—	$ 5.25	$ 5.90
No cost collars	Jan-Dec 2004	25,000 Bbls	—	$ 28.72	$ 31.90
No cost collars	Jan-Dec 2005	15,000 Bbls	—	$ 42.50	$ 46.00
No cost collars	Jan-Dec 2005	400,000 MMBTU	—	$ 6.00	$ 8.35
No cost collars	March-Dec 2005	9,000 Bbls	—	$ 44.50	$ 48.00
No cost collars	March-Dec 2005	210,000 MMBTU	—	$ 6.05	$ 7.30
No cost collars	Jan-Dec 2006	14,000 Bbls	—	$ 41.65	$ 45.25
No cost collars	Jan-Dec 2006	430,000 MMBTU	—	$ 6.00	$ 7.25

We have elected not to designate these instruments as hedges for accounting purposes. Accordingly, both realized and unrealized gains and losses are included in oil and natural gas sales. The following summarizes our realized and unrealized gains and losses.

	March 31, 2005	December 31, 2004
Realized (cash payments)	$ 232,695	$ 3,906,326
Valuation loss	9,812,799	1,658,808
	$ 10,045,494	$ 5,565,134

A liability of $11,471,607 and $1,658,808 was recorded at March 31, 2005 and December 31, 2004, respectively, representing the market value of our derivatives.

QuickLinks

EXHIBIT 99.2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF SUPPLEMENTAL FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Overview

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.3

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Partners of
American Real Estate Partners, L.P.

We have audited the accompanying supplemental consolidated balance sheet of American Real Estate Partners, L.P. and Subsidiaries as of December 31, 2004, and the related supplemental consolidated statements of earnings, changes in partners' equity and comprehensive income, and cash flows for the year then ended as restated for the acquisition of TransTexas Gas Corporation discussed in Note 1. These supplemental consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the supplemental consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Real Estate Partners, L.P. and Subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

New York, New York
June 2, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Partners
American Real Estate Partners, L.P.:

We have audited the accompanying supplemental consolidated balance sheet of American Real Estate Partners, L.P. and subsidiaries as of December 31, 2003, and the related supplemental consolidated statements of earnings, changes in partners' equity and comprehensive income, and cash flows for each of the years in the two-year period ended December 31, 2003. These supplemental consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these supplemental consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The supplemental consolidated financial statements give retroactive effect to the merger of American Real Estate Partners, L.P. and subsidiaries and TransTexas Gas Corporation on April 6, 2005, which has been accounted for in a manner similar to a pooling-of-interests as described in Note 1 to the supplemental consolidated financial statements. Generally accepted accounting principles proscribe giving effect to a consummated business combination accounted for by the pooling-of-interests method in the financial statements that do not include the date of consummation. These financial statements do not extend through the date of consummation. However, they will become the historical consolidated financial statements of American Real Estate Partners, L.P. and subsidiaries after financial statements covering the date of consummation of the business combination are issued.

In our opinion, the supplemental consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Real Estate Partners, L.P. and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles applicable after financial statements are issued for a period which includes the date of the consummation of the business combination.

/s/ KPMG LLP

New York, New York
May 4, 2005

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES
SUPPLEMENTAL CONSOLIDATED BALANCE SHEETS

MARCH 31, 2005 (UNAUDITED) AND DECEMBER 31, 2004 AND 2003

	March 31,	December 31,	
	2005	2004	2003
		(in $000's except per unit amounts)	
	(Unaudited)		
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 2)	$ 1,250,074	$ 768,918	$ 504,369
Investment in U.S. government and agency obligations (Note 4)	68,894	96,840	52,583
Marketable equity and debt securities (Note 5)	68,497	2,248	55,826
Due from brokers (Note 6)	147,223	123,001	—
Restricted cash	28,537	19,856	15,058
Receivables and other current assets	52,567	59,274	51,780
Real estate leased to others:			
Current portion of lease amortization for leases accounted for under the financing method (Note 8)	3,740	3,912	5,738
Properties held for sale (Notes 9 and 15)	33,995	58,021	128,813
Current portion of investment in debt securities of affiliates (Note 12)	5,429	5,429	—
Current portion of deferred tax asset (Note 23)	2,685	2,685	2,982
Total current assets	1,661,641	1,140,184	817,149
Investment in U.S. government and agency obligations (Note 4)	5,533	5,491	8,990
Other investments (Note 7)	244,602	245,948	50,328
Land and construction-in-progress (Note 15)	106,000	106,537	43,459
Real estate leased to others:			
Accounted for under the financing method (Notes 8, 15 and 16)	75,949	85,281	131,618
Accounted for under the operating method, net of accumulated depreciation (Notes 9, 15 and 16)	51,127	49,118	76,443
Oil and gas properties, net (Notes 2 and 14)	180,241	168,136	168,921
Hotel, casino and resort operating properties, net of accumulated depreciation:			
American Casino & Entertainment Properties LLC (Notes 10 and 17)	288,890	289,360	298,703
Hotel and resorts (Notes 9 and 11)	46,041	50,132	41,526
Deferred finance costs and other assets, net	24,831	21,200	4,095
Long-term portion of investment in debt securities of affiliates (Note 12)	91,864	92,575	24,696
Investment in NEG Holding LLC (Note 14)	97,693	87,800	69,346
Equity interest in GB Holdings, Inc. (The Sands Hotel and Casino)(Note 13)	9,138	10,603	30,854
Deferred tax asset (Note 23)	52,147	55,824	65,445
Total	$ 2,935,697	$ 2,408,189	$ 1,831,573

LIABILITIES AND PARTNERS' EQUITY			
Current Liabilities:			
Current portion of mortgages payable (Notes 8, 9 and 16)	$ 4,205	$ 3,700	$ 4,892
Mortgages on properties held for sale (Notes 9 and 16)	20,372	27,477	82,861
Accounts payable, accrued expenses and other current liabilities (Note 20)	96,814	95,877	55,880
Securities sold not yet purchased (Note 6)	83,750	90,674	—
Other debt due to affiliates (Notes 14 and 17)	10,000	—	30,000
Total current liabilities	215,141	217,728	173,633
Other liabilities	28,133	26,048	29,127
Long-term portion of mortgages payable (Notes 8, 9 and 16)	55,614	60,719	93,236
Senior secured notes payable (Note 18)	215,000	215,000	—
Senior unsecured notes payable $8^{1}/8$% due 2012 net of unamortized discount of $2,321 and $2,402 at March 31, 2005 and December 31, 2004 (Note 19)	350,679	350,598	—
Senior unsecured notes payable—$7^{1}/8$ due 2013 (Note 19)	480,000	—	—
Asset retirement obligation (Note 2)	3,999	3,930	3,477
Due to affiliates (Notes 14 and 17)	—	—	27,500
Preferred limited partnership units:			
$10 liquidation preference, 5% cumulative pay-in-kind; 10,400,000 authorized; 10,800,397, 10,286,264 and 9,796,607 issued and outstanding as of March 31, 2005, December 31, 2004 and 2003 (Note 22)	108,006	106,731	101,649
Total long-term liabilities	1,241,431	763,026	254,989
Minority interest (Note 14)	—	—	9,604
Commitments and contingencies (Notes 3 and 24):			
Partners' Equity			
Limited partners:			
Depositary units; 47,850,000 authorized; 47,235,484 outstanding	1,383,913	1,328,031	1,184,870
General partner	107,133	111,325	220,398
Treasury units at cost:			
1,137,200 depositary units (Note 28)	(11,921)	(11,921)	(11,921)
Partners' equity (Notes 2 and 3)	1,479,125	1,427,435	1,393,347
Total	$ 2,935,697	$ 2,408,189	$ 1,831,573

See notes to consolidated supplemental financial statements.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED) AND

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	Three Months Ended March 31,		Years Ended December 31,		
	2005	2004	2004	2003	2002
			(in $000's except unit and per unit amounts)		
	(Unaudited)				
Revenues:					
Hotel and casino operating income (Note 10)	$ 82,838	$ 75,009	$ 299,981	$ 262,811	$ 250,023
Land, house and condominium sales	8,279	5,014	26,591	13,265	76,024
Interest income on financing leases	1,966	2,936	9,880	13,115	14,722
Interest income on U.S. Government and Agency obligations and other investments (Notes 2 and 7)	12,902	4,944	44,376	22,592	30,569
Rental income	2,035	2,027	7,916	7,092	6,852
Hotel and resort operating income (Note 11)	5,563	1,335	16,211	12,376	12,921
Oil and gas operating income (Notes 2 and 14)	15,422	15,333	58,419	20,899	—
Accretion of investment in NEG Holding LLC (Note 14)	9,893	7,904	34,432	30,142	32,879
NEG management fee	2,108	1,464	6,887	6,629	7,637
Dividend and other income (Notes 5 and 7)	4,206	834	3,616	3,211	2,720
Equity in (loss) earnings of GB Holdings, Inc. (Note 13)	(986)	(348)	(2,113)	(3,466)	305
	144,226	116,452	506,196	388,666	434,652
Expenses:					
Hotel and casino operating expenses (Note 10)	57,624	54,243	227,603	216,857	217,938
Cost of land, house and condominium sales	7,047	3,358	18,486	9,129	54,640
Oil and gas operating expense (Notes 2 and 14)	2,866	3,858	13,816	5,028	—
Hotel and resort operating expenses (Note 11)	5,405	1,424	12,730	8,773	10,536
Interest expense (Notes 15, 16, 17, 18, 19 and 22)	19,265	7,191	49,669	27,057	27,297
Depreciation, depletion and amortization	16,167	18,396	68,291	40,571	23,646
General and administrative expenses (Note 3)	7,610	4,364	20,952	14,081	14,134
Property expenses	952	1,085	4,340	4,472	3,862
Provision for losses on real estate	—	—	3,150	750	3,212
	116,936	93,919	419,037	326,718	355,265

Operating income	27,290	22,533	87,159	61,948	79,387
Other gains and (losses):					
Gain (loss) on sale of other assets	(180)	(4)	1,680	(1,503)	(353)
Gain on sale of marketable equity and debt securities	—	28,857	40,159	2,607	—
Unrealized (losses) gains on securities sold short (Note 6)	21,704	—	(23,619)	—	—
Change in fair market value of derivative contract	(9,813)	—	—	—	—
Impairment loss on equity interest in GB Holdings, Inc. (Note 13)	—	—	(15,600)	—	—
Write-down of marketable equity and debt securities and other investments (Note 5)	—	—	—	(19,759)	(8,476)
Gain on sales and disposition of real estate (Note 15)	186	6,047	5,262	7,121	8,990
Loss on limited partnership interests	—	—	—	—	(3,750)
Severance tax refund	—	—	4,468	—	—
Minority interest (Notes 10 and 14)	—	(39)	(812)	(1,266)	(1,943)
Income from continuing operations before income taxes	39,187	57,394	98,697	49,148	73,855
Income tax (expense) benefit (Note 23)	(4,782)	(5,966)	(17,326)	16,750	(10,096)
Income from continuing operations	34,405	51,428	81,371	65,898	63,759
Discontinued operations:					
Income from discontinued operations	957	3,218	7,500	7,653	6,937
Gain on sales and disposition of real estate	18,723	6,929	75,197	3,353	—
Total income from discontinued operations	19,680	10,147	82,697	11,006	6,937
Net earnings	$ 54,085	$ 61,575	$ 164,068	$ 76,904	$ 70,696
Net earnings attributable to (Note 1):					
Limited partners	$ 58,228	$ 57,608	$ 152,507	$ 59,360	$ 63,168
General partner	(4,143)	3,967	11,561	17,544	7,528
	$ 54,085	$ 61,575	$ 164,068	$ 76,904	$ 70,696

Net earnings per limited partnership unit (Notes 2 and 21):					
Basic earnings:					
Income from continuing operations	$ 0.84	$ 1.03	$ 1.55	$ 1.00	$ 1.12
Income from discontinued operations	0.42	0.22	1.76	0.24	0.15
Basic earnings per LP unit	$ 1.26	$ 1.25	$ 3.31	$ 1.24	$ 1.27
Weighted average limited partnership units outstanding	46,098,284	46,098,284	46,098,284	46,098,284	46,098,284
Diluted earnings:					
Income from continuing operations	$ 0.81	$ 0.93	$ 1.48	$ 0.94	$ 1.00
Income from discontinued operations	0.39	0.19	1.57	0.19	0.12
Diluted earnings per LP unit	$ 1.20	$ 1.12	$ 3.05	$ 1.13	$ 1.12
Weighted average limited partnership units and equivalent partnership units outstanding	49,857,622	52,499,303	51,542,312	54,489,943	56,466,698

See notes to supplemental consolidated financial statements.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' EQUITY AND COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2005 (UNAUDITED) AND YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002 (in $000's)

	General Partner's Equity (Deficit)	Limited Partners' Equity		Held in Treasury		Total Partners' Equity
		Depositary Units	Preferred Units	Amounts	Units	
Balance, December 31, 2001	$ 58,846	$ 996,701	$ 92,198	$ (11,921)	1,137	1,135,824
Comprehensive income:						
Net earnings	7,528	63,168	—	—	—	70,696
Reclassification of unrealized loss on sale of debt securities	211	10,384	—	—	—	10,595
Adjustment to reverse unrealized loss on investment securities reclassified to notes receivable	131	6,451	—	—	—	6,582
Net unrealized losses on securities available for sale	(5)	(237)	—	—	—	(242)
Comprehensive income	7,865	79,766	—	—	—	87,631
Net adjustment for acquisition of minority interest (Note 10)	21,151	—	—	—	—	21,151
Pay-in-kind distribution (Note 22)	—	(4,610)	4,610	—	—	—
Capital contribution to American Casino (Note 10)	831	—	—	—	—	831
Balance, December 31, 2002	88,693	1,071,857	96,808	(11,921)	1,137	1,245,437
Comprehensive income:						
Net earnings	17,544	59,360	—	—	—	76,904
Reclassification of unrealized loss on sale of debt securities	15	746	—	—	—	761
Net unrealized gains on securities available for sale	183	8,991	—	—	—	9,174
Sale of marketable equity securities available for sale	(6)	(274)	—	—	—	(280)
Comprehensive income	17,736	68,823	—	—	—	86,559
Pay-in-kind distribution (Note 22)	—	(2,391)	2,391	—	—	—
Change in deferred tax asset valuation allowance related to book-tax differences existing at time of bankruptcy (Note 23)	524	46,581	—	—	—	47,105
Capital distribution (Note 10)	(2,808)	—	—	—	—	(2,808)
Reclassification of Preferred LP units to liabilities (Note 22)	—	—	(99,199)	—	—	(99,199)
Net adjustment for TransTexas acquisition (Note 14)	116,253	—	—	—	—	116,253
Balance, December 31, 2003	220,398	1,184,870	—	(11,921)	1,137	1,393,347
Comprehensive income:						
Net earnings	11,561	152,507	—	—	—	164,068
Reclassification of unrealized gains on marketable securities sold	(190)	(9,378)	—	—	—	(9,568)
Net unrealized gains on securities available for sale	1	32	—	—	—	33
Comprehensive income	11,372	143,161	—	—	—	154,533
Capital distribution from American Casino (Note 10)	(17,916)	—	—	—	—	(17,916)
Capital contribution to American Casino (Note 10)	22,800	—	—	—	—	22,800
Arizona Charlie's acquisition (Note 10)	(125,900)	—	—	—	—	(125,900)
Distribution						
Change in deferred tax asset related to acquisition of Arizona Charlie's	2,490	—	—	—	—	2,490
Distribution to General Partner relating to TransTexas' purchase of minority interest and treasury shares (Note 14)	(1,919)	—	—	—	—	(1,919)
Balance, December 31, 2004	111,325	1,328,031	—	(11,921)	1,137	1,427,435
Comprehensive Income:						
Net earnings	(4,143)	58,228	—	—	—	54,085
Net unrealized losses on securities available for sale	(49)	(2,346)	—	—	—	(2,395)
Comprehensive income	(4,192)	55,882	—	—	—	51,690
Balance, March 31, 2005 (Unaudited)	$ 107,133	$ 1,383,913	$ —	$ (11,921)	$ 1,137	$ 1,479,125

Accumulated other comprehensive income (loss) at March 31, 2005, December 31, 2004, 2003 and 2002 was ($2,517), ($122), $9,174 and ($242), respectively.

See notes to supplemental consolidated financial statements.

AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES

SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED) AND YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(in $000's)

	Three Months Ended March 31,		Years Ended December 31,		
	2005	2004	2004	2003	2002
	(Unaudited)				
Cash flows from operating activities:					
Income from continuing operations	$ 34,405	$ 51,428	$ 81,371	$ 65,898	$ 63,759
Adjustments to reconcile net earnings to net cash provided by operating activities:					
Depreciation, depletion and amortization	16,099	18,316	67,959	41,173	23,646
Change in fair market value of derivative contracts	9,813	2,050	1,659	(373)	—
Note discount amortization	26	71	281	95	—
Accretion of discount on asset retirement obligation	69	80	332	96	—
Preferred LP interest expense	1,286	1,225	5,082	2,450	—
Gain on sale of marketable equity securities	—	(28,857)	(40,159)	(2,607)	—
Unrealized (gains) losses on securities sold short	(21,704)	—	23,619	—	—
Impairment loss on equity interest in GB Holdings, Inc.	—	—	15,600	—	—
Gain on sales and disposition of real estate	(186)	(6,047)	(5,262)	(7,121)	(8,990)
Loss on limited partnership interests	—	—	—	—	3,750
Loss (gain) on sale of assets	180	4	(1,584)	1,511	353
Provision for loss on real estate	—	—	3,150	750	3,212
Write-down of marketable equity and debt securities and other investments	—	—	—	19,759	8,476
Minority interest	—	39	812	1,266	1,943
Equity in losses (earnings) of GB Holdings, Inc.	986	348	2,113	3,466	(305)
Deferred gain amortization	(510)	(510)	(2,038)	(2,038)	(2,038)
Accretion of investment in NEG Holding LLC	(9,893)	(7,904)	(34,432)	(30,142)	(32,879)
Deferred income tax expense (benefit)	3,678	1,412	14,296	(22,256)	9,785
Changes in operating assets and liabilities:					
Decrease (increase) in receivables and other assets	5,639	(8,414)	(10,442)	3,762	2,944
Increase in due from brokers	(2,518)	—	(123,001)	—	—
Decrease (increase) in land and construction-in-progress	5,950	(455)	(1,626)	(4,106)	24,215
Increase in restricted cash	(8,682)	—	(4,798)	(13,095)	—
Increase (decrease) in accounts payable, accrued expenses and other liabilities	1,404	13,046	96,280	(38,346)	271
Net cash provided by continuing operations	36,042	35,832	89,212	20,142	98,142
Total income from discontinued operations	19,680	10,147	82,697	11,006	6,937
Depreciation and amortization	31	210	1,244	5,129	4,464
Net gain from property transactions	(18,723)	(6,929)	(75,197)	(3,353)	—
Net cash provided by discontinued operations	988	3,428	8,744	12,782	11,401
Net cash provided by operating activities	37,030	39,260	97,956	32,924	109,543
Cash flows from investing activities:					
Cash related to combination of TransTexas accounted for as a pooling of interest	—	—	—	15,312	—
Increase (decrease) in other investments	—	—	2,942	(28,491)	(23,200)
Repayments of mezzanine loans included in other investments	—	—	49,130	12,200	23,000
Decrease in mortgages and notes receivable	—	351			
Net proceeds from the sales and disposition of real estate	4,650	11,346	16,790	15,290	20,513
Proceeds from sale of other assets	19	64	3,779	—	—
Principal payments received on leases accounted for under the financing method	908	1,112	4,219	5,310	5,941
Principal payments received on investments in debt securities of affiliates	2,700	—			
Purchase of debt securities included in other investments	—	—	(245,166)	—	—
Purchase of debt securities of affiliates	—	—	(65,500)	—	—
Purchase of Atlantic Holdings debt included in debt securities due from affiliates	—	—	(36,000)	—	—
Acquisition of Arizona Charlies'	—	—	(125,900)	—	—
Additions to hotel, casino and resort operating property	(4,781)	—	(16,203)	(32,911)	(21,715)
Acquisition of hotel and resort operating property	—	(1,492)	(16,463)	—	—
Acquisitions of rental real estate	—	(14,583)	(14,583)	—	(18,226)
Acquisition of land and construction in progress	—	—	(61,845)	—	—
Additions to rental real estate	—	(166)	(18)	(413)	(181)
Additions to oil and gas operating property	(21,071)	(6,106)	(47,528)	(633)	—
Decrease (increase) in investment in U.S. Government and Agency Obligations (Note 2)	27,903	(61,077)	(40,757)	274,478	(22,410)
Increase in marketable equity and debt securities	(66,250)	—	—	(45,140)	(4,415)

Proceeds from sale of marketable equity and debt securities	—	64,471	90,614	3,843	—
Decrease in note receivable from affiliate	—	—	—	250,000	—

Acquisition of minority interest in TransTexas	—	—	(4,136)	—	—
Decrease in minority interest in Stratosphere Corp	—	—	—	—	(44,744)
Decrease in investment in Stratosphere Corp	—	—	—	788	—
Investment in NEG, Inc	—	—	—	(148,101)	—
Guaranteed payment from NEG Holding LLC	—	—	15,979	18,229	21,653
Priority distribution from NEG Holding LLC	—	—	—	40,506	—
Decrease in due to affiliate	—	—	—	—	(68,491)
Increase in restricted cash	—	(219,313)	—	—	—
Other	—	(50)	(194)	560	197
Net cash (used in) provided by investing activities from continuing operations	(55,922)	(225,443)	(490,840)	380,827	(132,078)
Cash flows from investing activities from discontinued operations:					
Net proceeds from the sales and disposition of real estate	36,582	7,392	134,789	5,336	—
Net cash (used in) provided by investing activities	(19,340)	(218,051)	(356,051)	386,163	(132,078)
Cash flows from financing activities:					
Partners' Equity:					
Distributions to members	—	—	(17,916)	—	—
Member's contribution	—	—	22,800	—	—
Contributions to American Casino	—	—	—	—	598
Debt:					
Repayment of credit facilities	—	—	—	(2,904)	(5,000)
Proceeds from credit facility	—	—	—	7,780	17,220
Proceeds from Senior Notes Payable	480,000	215,000	565,409	—	—
Decrease in due to affiliates	(6,602)	—	(24,925)	—	—
Proceeds from mortgages payable	—	—	10,000	20,000	12,700
Payments on mortgages payable	—	—	—	(3,837)	(462)
Periodic principal payments	(1,598)	(3,721)	(14,613)	(15,297)	(7,198)
Debt issuance costs	(8,334)	(7,515)	(18,111)	—	—
Other	—	—	—	—	242
Net cash provided by financing activities	463,466	203,764	522,644	5,742	18,100
Net increase (decrease) in cash and cash equivalents	481,156	24,973	264,549	424,829	(4,435)
Cash and cash equivalents, beginning of period	768,918	517,464	504,369	79,540	83,975
Cash and cash equivalents at end of period	$ 1,250,074	$ 542,437	$ 768,918	$ 504,369	$ 79,540
Supplemental information:					
Cash payments for interest, net of amounts capitalized	$ 9,612	$ 5,667	$ 48,015	$ 65,253	$ 37,176
Supplemental schedule of noncash investing and financing activities:					
Reclassification of real estate to operating lease	$ 3,068	$ —	$ —	$ 5,065	$ 13,403
Reclassification from hotel and resort operating properties	—	(6,395)	(6,428)	—	—
Reclassification of real estate from financing lease	(358)	—	(1,920)	(5,065)	(13,503)
Reclassification of real estate from operating lease	(411)	(14,353)	(38,452)	(126,263)	—
Reclassification of real estate to property held for sale	716	20,748	46,800	126,263	100
Reclassification of real estate from properties held for sale	(3,015)	—	—	—	—
Decrease in other investments	—	—	—	(3,453)	—
Decrease in deferred income	—	—	—	2,565	—
Increase in real estate accounted for under the operating method	—	—	—	888	—
Reclassification from marketable equity and debt securities	—	—	—	—	(20,494)
Reclassification from receivable and other assets	—	—	—	(1,631)	—
Reclassification to other investments	—	—	—	1,631	20,494
	$ —	$ —	$ —	$ —	$ —
Net unrealized (losses) gains on securities available for sale	$ (2,394)	$ 2,378	$ 33	$ 9,174	$ (242)
Increase in equity and debt securities	$ 805	$ 300	$ 1,740	$ 1,200	$ 2,890
Contribution of note from NEG Holding LLC	$ —	$ —	$ —	$ 10,940	$ —
Change in tax asset related to acquisition	$ —	$ —	$ 2,490	$ —	$ —

See notes to supplemental consolidated financial statements.

1. Description of Business and Basis of Presentation

American Real Estate Partners, L.P. and its subsidiaries (the "Company" or "AREP") are engaged in the following operating businesses: (1) rental real estate; (2) hotel, casino and resort operations; (3) land, house and condominium development; (4) participation in and ownership of oil and gas operating properties; and (5) investment in securities, including investment in other entities and marketable equity and debt securities.

As a result of the Company's expansion into non-real estate businesses, the Company has changed the presentation of its 2005 and 2004 Consolidated Balance Sheets to a classified basis. The 2003 Consolidated Balance Sheet has been reclassified to conform to the 2005 and 2004 presentation.

On July 1, 1987, American Real Estate Holdings Limited Partnership (the "Subsidiary" or "AREH"), in connection with an exchange offer (the "Exchange"), entered into merger agreements with American Real Estate Partners, L.P. and each of thirteen separate limited partnerships (collectively, the "Predecessor Partnerships"), pursuant to which the Subsidiary acquired all the assets, subject to the liabilities of the Predecessor Partnerships.

By virtue of the Exchange, the Subsidiary owns the assets, subject to the liabilities, of the Predecessor Partnerships. The Company owns a 99% limited partner interest in AREH. AREH, the operating partnership, was formed to hold the investments of and conduct the business operations of the Company. Substantially all of the assets and liabilities of the Company are owned by AREH and substantially all operations are conducted through AREH. American Property Investors, Inc. (the "General Partner") owns a 1% general partner interest in both the Subsidiary and the Company, representing an aggregate 1.99% general partner interest in the Company and the Subsidiary. The General Partner is owned and controlled by Mr. Carl C. Icahn ("Icahn" or "Mr. Icahn").

On August 16, 1996, the Company amended its Partnership Agreement to permit non-real estate related acquisitions and investments to enhance unitholder value and further diversify its assets. Under the Amendment, investments may include equity and debt securities of domestic and foreign issuers. The portion of the Company's assets invested in any one type of security or any single issuer are not limited.

The Company will conduct its activities in such a manner so as not to be deemed an investment company under the Investment Company Act of 1940 (the "1940 Act"). Generally, this means that no more than 40% of the Company's total assets will be invested in investment securities, as such term is defined in the 1940 Act. In addition, the Company does not intend to invest in securities as its primary business and will structure its investments to continue to be taxed as a partnership rather than as a corporation under the applicable publicly traded partnership rules of the Internal Revenue Code.

As of May 1, 2005, affiliates of the General Partner owned 9,346,044 Preferred Units, or 86.5%, and 39,896,836 Depositary Units or 86.5%.

TransTexas Acquisition—On April 6, 2005, AREP Oil and Gas LLC, a wholly-owned subsidiary of the Company, acquired TransTexas Gas Corporation ("TransTexas") from an entity affiliated with Mr. Icahn for $180.0 million in cash. TransTexas is considered a company under common control. Accordingly, the accompanying supplemental consolidated financial statements and footnotes include the assets and operations of TransTexas during the period of common control, commencing September 1, 2003. For the three months ended March 31, 2005 (unaudited), the year ended

December 31, 2004 and the 4 months ended December 31, 2003 TransTexas' revenue (in thousands) was approximately $15,457, $59,056 and $21,058, respectively. For the three months ended March 31, 2005 (unaudited), the year ended December 31, 2004, the 4 months ended December 31, 2003 TransTexas' net (loss) income was approximately ($5,325), $3,095 and $6,880, respectively. Earnings (loss) prior to the acquisition have been allocated to the General Partner. (See notes 3 and 14.)

2. Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of AREP and its majority-owned subsidiaries in which control can be exercised. The Company is considered to have control if it has a direct or indirect ability to make decisions about an entity's activities through voting or similar rights. The Company uses the guidance set forth in AICPA Statement of Position No. 78-9, *Accounting for Investments in Real Estate Ventures*, with respect to its investments in partnerships and limited liability companies. In addition, the Company uses the guidance of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, or FIN 46R, whereby an interest in a variable interest entity where the Company is deemed to be the primary beneficiary would be consolidated. The Company is not deemed to be the primary beneficiary, as defined, with respect to National Energy Group, Inc.'s ("NEG") investment in NEG Holding, LLC ("Holding LLC"). The Company accounts for its residual equity investment in Holding LLC in accordance with APB 18 (See Note 14). All material intercompany balances and transactions are eliminated.

Investments in affiliated companies determined to be voting interest entities in which AREP owns between 20% and 50%, and therefore exercises significant influence, but which it does not control, are accounted for using the equity method. The Company accounts for its 36% interest in GB Holdings on the equity basis.

In accordance with generally accepted accounting principles, assets transferred between entities under common control are accounted for at historical costs similar to a pooling of interests, and the financial statements of previously separate companies for periods prior to the acquisition are restated on a combined basis.

All adjustments which, in the opinion of management, are necessary to fairly present the results for the interim periods have been made.

Net Earnings Per Limited Partnership Unit—Basic earnings per LP Unit are based on net earnings as adjusted prior to the July 1, 2003, preferred pay-in-kind distribution to Preferred Unitholders. The resulting net earnings available for limited partners are divided by the weighted average number of depositary limited partnership units outstanding.

Diluted earnings per LP Unit uses net earnings attributable to limited partner interests, as adjusted after July 1, 2003 for the preferred pay-in-kind distributions as the numerator with the denominator based on the weighted average number of units and equivalent units outstanding. The Preferred Units are considered to be equivalent units. The number of limited partnership units used in the calculation of diluted income per limited partnership unit increased as follows: 3,759,338, 6,401,019, 5,444,028, 8,391,659, and 10,368,414 limited partnership units for the three months ended March 31, 2005 and

2004 (unaudited) and the years ended December 31, 2004, 2003 and 2002, respectively, to reflect the effects of the dilutive preferred units.

For accounting purposes, NEG's earnings prior to the NEG acquisition in October 2003, Arizona Charlie's earnings prior to its acquisition in May 2004 and TransTexas' earnings prior to its acquisition in April 2005 have been allocated to the General Partner and therefore excluded from the computation of basic and diluted earnings per limited partnership unit.

Cash and Cash Equivalents—The Company considers short-term investments, which are highly liquid with original maturities of three months or less at date of purchase, to be cash equivalents. Included in cash and cash equivalents at March 31, 2005 (unaudited), December 31, 2004 and 2003 are investments in government-backed securities of approximately $1,105,289,000, $658,534,000 and $378,000,000, respectively.

Restricted Cash—Restricted Cash consists of funds held by third parties in connection with tax free property exchanges pursuant to Internal Revenue Code Section 1031.

Marketable Equity and Debt Securities, Investment in U.S. Government and Agency Obligations and Other Investments—Investments in equity and debt securities are classified as either trading, held-to-maturity or available for sale for accounting purposes. Trading securities are valued at quoted market value at each balance sheet date with the unrealized gains or losses reflected in the Consolidated Statements of Earnings. Investments in U.S. Government and Agency Obligations are classified as available for sale. Available for sale securities are carried at fair value on the balance sheet of the Company. Unrealized holding gains and losses are excluded from earnings and reported as a separate component of Partners' Equity and when sold are reclassified out of Partners' Equity based on specific identification. Held-to-maturity securities are recorded at amortized cost.

A decline in the market value of any held-to-maturity or available for sale security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Dividend income is recorded when declared and interest income is recognized when earned.

Oil and Natural Gas Properties

The Company utilizes the full cost method of accounting for its crude oil and natural gas properties. Under the full cost method, all productive and nonproductive costs incurred in connection with the acquisition, exploration and development of crude oil and natural gas reserves are capitalized and amortized on the units-of-production method based upon total proved reserves. The costs of unproven properties are excluded from the amortization calculation until the individual properties are evaluated and a determination is made as to whether reserves exist. Conveyances of properties, including gains or losses on abandonments of properties, are treated as adjustments to the cost of crude oil and natural gas properties, with no gain or loss recognized.

Under the full cost method, the net book value of oil and natural gas properties, less related deferred income taxes, may not exceed the estimated after-tax future net revenues from proved oil and natural gas properties, discounted at 10% per year (the ceiling limitation). In arriving at estimated future net revenues, estimated lease operating expenses, development costs, abandonment costs, and

certain production related and ad-valorem taxes are deducted. In calculating future net revenues, prices and costs in effect at the time of the calculation are held constant indefinitely, except for changes, which are fixed and determinable by existing contracts. The net book value is compared to the ceiling limitation on a quarterly basis.

The Company has not capitalized internal costs or interest with respect to its oil and gas activities.

The Company is subject to extensive federal, state, and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environment effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. Liabilities for expenditures of a noncapital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated.

The Company's operations are subject to all of the risks inherent in oil and natural gas exploration, drilling, and production. These hazards can result in substantial losses to the Company due to personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage, or suspension or operations. The Company maintains insurance of various types customary in the industry to cover its operations and believes it is insured prudently against certain of these risks. In addition, the Company maintains operator's extra expense coverage that provides coverage for the care, custody and controls of wells drilled by the Company. The Company's insurance does not cover every potential risk associated with the drilling and production of oil and natural gas. As a prudent operator, the Company does maintain levels of insurance customary in the industry to limit its financial exposure in the event of a substantial environmental claim resulting from sudden and accidental discharges. However, 100% coverage is not maintained. The occurrence of a significant adverse event, the risks of which are not fully covered by insurance, could have a material adverse effect on the Company's financial condition and results of operations. Moreover, no assurance can be given that the Company will be able to maintain adequate insurance in the future at rates it considers reasonable. The Company believes that it operates in compliance with government regulations and in accordance with safety standards which meet or exceed industry standards.

Other investments.

a. The Company accounts for secured bank debt acquired at a discount for which the Company believes it is not probable that the undiscounted future cash collection will be sufficient to recover the face amount of the loan and constructive interest utilizing the cost recovery method in accordance with Practice Bulletin 6, "Amortization of Discounts on Certain Acquired Loans." For secured bank debt acquired at a discount where recovery is probable, the Company amortizes the discount on the loan over the period in which the payments are probable of collection, only if the amounts are reasonably estimable and the ultimate collectibility of the acquisition amount of the loan and the discount is probable. The Company evaluates collectibility for every loan at each balance sheet date.

SOP 03-03, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," which is effective for fiscal years beginning after December 15, 2004, limits the yield that may be accreted to the

excess of the Company's estimate of undiscounted cash flows expected to be collected over the Company's initial investment in a loan. The Company does not expect that the adoption of this SOP will have a significant impact on its financial statements.

b. The Company has generally not recognized any profit in connection with the property sales in which certain purchase money mortgages receivable were taken back. Such profits are being deferred and will be recognized when the principal balances on the purchase money mortgages are received.

c. The Company has provided development financing for certain real estate projects. The security for these loans is either a second mortgage or a pledge of the developers' ownership interest in the properties. Such loans are subordinate to construction financing and are generally referred to as mezzanine loans. Generally, interest is not paid periodically but is due at maturity or earlier from unit sales or refinancing proceeds. The Company defers recognition of interest income on mezzanine loans pending receipt of all principal payments.

Income Taxes—No provision has been made for federal, state or local income taxes on the results of operations generated by partnership activities, as such taxes are the responsibility of the partners. American Entertainment Properties Corp., the parent of American Casino & Entertainment Properties LLC ("American Casino"), TransTexas, and NEG, the Company's corporate subsidiaries, account for their income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

For income tax purposes, the taxable income or loss of TransTexas and its subsidiaries is included in the consolidated income tax return of the Starfire Holding Corp. ("Starfire") controlled group. TransTexas and its subsidiaries entered into a tax allocation agreement with Starfire that provides for payments of tax liabilities to Starfire, calculated as if TransTexas and its subsidiaries filed a consolidated income tax return separate from the Starfire controlled group. Additionally, the agreement provides for payments from Starfire to TransTexas and its subsidiaries for any previously paid tax liabilities that are reduced as a result of subsequent determinations by any governmental authority, or as a result of any tax losses or credits that are allowed to be carried back to prior years.

Leases—The Company leases to others substantially all its real property under long-term net leases and accounts for these leases in accordance with the provisions of Financial Accounting Standards Board Statement No. 13, "Accounting for Leases," as amended. This Statement sets forth specific criteria for determining whether a lease is to be accounted for as a financing lease or an operating lease.

Financing Method—Under this method, minimum lease payments to be received plus the estimated value of the property at the end of the lease are considered the gross investment in the lease. Unearned income, representing the difference between gross investment and actual cost of the leased

property, is amortized to income over the lease term so as to produce a constant periodic rate of return on the net investment in the lease.

Operating Method—Under this method, revenue is recognized as rentals become due and expenses (including depreciation) are charged to operations as incurred.

Properties—Properties held for investment, other than those accounted for under the financing method, are carried at cost less accumulated depreciation unless declines in the values of the properties are considered other than temporary, at which time the property is written down to net realizable value. A property is classified as held for sale at the time management determines that the criteria in SFAS 144 have been met. Properties held for sale are carried at the lower of cost or net realizable value. Such properties are no longer depreciated and their operations are included in discontinued operations. As a result of the reclassification of certain real estate to properties held for sale during the three months ended March 31, 2005, income and expenses of such properties are reclassified to discontinued operations for all prior periods. If management determines that a property classified as held for sale no longer meets the criteria in SFAS 144, the property is reclassified as held for use.

Depreciation—Depreciation is principally computed using the straight-line method over the estimated useful life of the particular property or property components, which range from 3 to 45 years.

Use of Estimates—Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates. The more significant estimates include the valuation of (1) long-lived assets; (2) mortgages and notes receivable; (3) marketable equity and debt securities and other investments; (4) costs to complete for land, house and condominium developments; (5) gaming-related liability and loyalty programs; and (6) deferred tax assets.

Revenue and Expense Recognition

1. Revenue from real estate sales and related costs are recognized at the time of closing primarily by specific identification. The Company follows the guidelines for profit recognition set forth by Statement of Financial Accounting Standards No. 66, "*Accounting for Sales of Real Estate.*"

2. Casino revenues and promotional allowances—The Company recognizes revenues in accordance with industry practice. Casino revenue is the net win from gaming activities (the difference between gaming wins and losses). Casino revenues are net of accruals for anticipated payouts of progressive and certain other slot machine jackpots. Revenues include the retail value of rooms, food and beverage and other items that are provided to customers on a complimentary basis. A corresponding amount is deducted as promotional allowances. Hotel and restaurant revenue is recognized when services are performed. The cost of such complimentaries is included in "Hotel and casino operating expenses."

The Company also rewards customers, through the use of loyalty programs with points based on amounts wagered, that can be redeemed for a specified period of time for cash. The Company deducts the cash incentive amounts from casino revenue.

3. Sales, advertising and promotion—These costs are expensed as incurred and were approximately $6.9 million, $6.3 million, $28.8 million, $22.9 million and $18.1 million in the three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004, 2003 and 2002, respectively.

Natural Gas Production Imbalances

The Company accounts for natural gas production imbalances using the sales method, whereby the Company recognized revenue on all natural gas sold to its customers notwithstanding the fact its ownership may be less than 100% of the natural gas sold. Liabilities are recorded by the Company for imbalances greater than the Company's proportionate share of remaining natural gas reserves. The Company had no gas balancing liabilities as of March 31, 2005 (unaudited), December 31, 2004 and 2003.

Hedging Agreements

From time to time, the Company enters into commodity price swap agreements (the Hedge Agreements) to reduce its exposure to price risk in the spot market for natural gas and oil. The Company follows Statement of Financial Accounting Standards No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*, which was amended by Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. These pronouncements established accounting and reporting standards for derivative instruments and for hedging activities, which generally require recognition of all derivatives as either assets or liabilities in the balance sheet at their fair value. The accounting for changes in fair value depends on the intended use of the derivative and its resulting designation.

The following is a summary of natural gas and oil contracts entered into with Shell Trading (US) Company as of March 31, 2005.

Type contract	Production Month	Volume per month	Fixed price	Floor	Ceiling
Fixed price	April–June 2004	300,000 MMBTU	$ 5.44	—	—
Fixed price	July–Sept 2004	300,000 MMUTU	$ 5.34	—	—
No cost collars	Oct–Dec 2004	300,000 MMBTU	—	$ 5.25	$ 5.90
No cost collars	Jan–Dec 2004	25,000 Bbls	—	$ 28.72	$ 31.90
No cost collars	Jan–Dec 2005	15,000 Bbls	—	$ 42.50	$ 46.00
No cost collars	Jan–Dec 2005	400,000 MMBTU	—	$ 6.00	$ 8.35
No cost collars	March–Dec 2005	9,000 Bbls	—	$ 44.50	$ 48.00
No cost collars	March–Dec 2005	210,000 MMBTU	—	$ 6.05	$ 7.30
No cost collars	Jan–Dec 2006	14,000 Bbls	—	$ 41.65	$ 45.25
No cost collars	Jan–Dec 2006	430,000 MMBTU	—	$ 6.00	$ 7.25

The Company has elected not to designate these instruments as hedges for accounting purposes, accordingly both realized and unrealized gains and losses are included in oil and natural gas sales. The following summarizes the Company's realized and unrealized gains and losses.

	March 31, 2005	December 31, 2004
Realized (cash payments)	$ 232,695	$ 3,906,325
Valuation loss	9,812,799	1,658,809
	$ 10,045,494	$ 5,565,134

A liability of $11,471,607, $1,658,808 and $0 was recorded at March 31, 2005 (unaudited), December 31, 2004 and 2003, respectively, representing the market value of the Company's derivatives.

Accounting for Asset Retirement Obligations

The Company accounts for its asset retirement obligations under Statement of Financial Accounting Standards No. 143 (SFAS 143), *Accounting for Asset Retirement Obligations.* SFAS 143 provides accounting requirements for costs associated with legal obligations to retire tangible, long-lived assets. Under SFAS 143, an asset retirement obligation is needed at fair value in the period in which it is incurred by increasing the carrying amount for the related long-lived asset. In each subsequent period, the liability is accreted to its present value and the capitalized cost is depreciated over the useful life of the related asset.

The Company's asset retirement obligation represents expected future costs to plug and abandon its wells, dismantle facilities, and reclamate sites at the end of the related assets' useful lives. The following information reflects activity related to the Company's asset retirement obligation for the three months ended March 31, 2005 (unaudited) and the years ended December 31, 2004 and 2003 (in thousands):

	2005	2004	2003
Balance, beginning of period	$ 3,930	$ 3,477	$ 3,375
Accretion expense	69	332	96
Additions	—	121	6
Balance, end of period	$ 3,999	$ 3,930	$ 3,477

Land and Construction-in-Progress—These costs are stated at the lower of cost or net realizable value. Interest is capitalized on expenditures for long-term projects until a salable condition is reached. The capitalization rate is based on the interest rate on specific borrowings to fund the projects.

Investment in NEG Holding LLC—Due to the substantial uncertainty that the Company will receive any distribution above the priority and guaranteed payment amounts, the Company accounts for its investment in Holding LLC as a preferred investment whereby guaranteed payment amounts received and receipts of the priority distribution amount are recorded as reductions in the investment and income is recognized from accretion of the investment up to the priority distribution amount, including the guaranteed payments (based on the interest method). See Note 14. Following receipt of

the guaranteed payments and priority distributions, the residual interest in the investment will be valued at zero.

The Company periodically evaluates the carrying amount of its investment in Holding LLC to determine whether current events or circumstances warrant adjustments to the carrying value and/or revisions to accretion of income. The Company currently believes that no such impairment has occurred and that no revision to the accretion of income is warranted.

Accounting for Impairment of a Loan—If it is probable that, based upon current information, the Company will be unable to collect all amounts due according to the contractual terms of a loan agreement, the Company considers the asset to be "impaired." Reserves are established against impaired loans in amounts equal to the difference between the recorded investment in the asset and either the present value of the cash flows expected to be received, or the fair value of the underlying collateral if foreclosure is deemed probable or if the loan is considered collateral dependent.

Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of—Long-lived assets held and used by the Company and long-lived assets to be disposed of, are reviewed for impairment whenever events or changes in circumstances, such as vacancies and rejected leases, indicate that the carrying amount of an asset may not be recoverable.

In performing the review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset an impairment loss is recognized. Measurement of an impairment loss for long-lived assets that the Company expects to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Recently Issued Pronouncements

On September 28, 2004, the SEC released Staff Accounting Bulletin ("SAB") 106 regarding the application of SFAS 143, "Accounting for Asset Retirement Obligations ("AROs")," by oil and gas producing companies following the full cost accounting method. Pursuant to SAB 106, oil and gas producing companies that have adopted SFAS 143 should exclude the future cash outflows associated with settling AROs (ARO liabilities) from the computation of the present value of estimated future net revenues for the purposes of the full cost ceiling calculation. In addition, estimated dismantlement and abandonment costs, net of estimated salvage values, that have been capitalized (ARO assets) should be included in the amortization base for computing depreciation, depletion and amortization expense. Disclosures are required to include discussion of how a company's ceiling test and depreciation, depletion and amortization calculations are impacted by the adoption-of SFAS 143. SAB 106 is effective prospectively as of the beginning of the first fiscal quarter beginning after October 4, 2004. The adoption of SAB 106 is not expected to have a material impact on either the ceiling test calculation or depreciation, depletion and amortization.

3. Related Party Transactions

a. On April 6, 2005, AREP Oil and Gas LLC, a wholly owned subsidiary of the Company, acquired TransTexas from an entity affiliated with Mr. Icahn, for $180.0 million in cash. Mr. Icahn is

Chairman of the Board of American Property Investors, Inc. The terms of the transaction were approved by the Audit Committee of the Board of Directors of the General Partner ("Audit Committee") which was advised by its independent financial advisor and by counsel. (See Note 14).

b. On May 26, 2004, American Casino acquired two Las Vegas casino/hotels, Arizona Charlie's Decatur and Arizona Charlie's Boulder from Mr. Icahn and an entity affiliated with Mr. Icahn, for aggregate consideration of $125.9 million. The terms of the transactions were approved by the Audit Committee, which was advised by its independent financial advisor and by counsel. (See Note 10).

c. At December 31, 2002, the Company had a $250 million note receivable from Mr. Icahn, which was repaid in October 2003. Interest income of approximately $7.9 million and $9.9 million was earned on this loan in the years ended December 31, 2003 and 2002, respectively, and is included in "Interest income on U.S. Government and Agency obligations and other investments" in the Supplemental Consolidated Statements of Earnings.

d. In 1997, the Company entered into a license agreement for a portion of office space from an affiliate. The license agreement dated as of February 1, 1997 expired May 22, 2004 and has been extended on a month to month basis. Pursuant to the license agreement, the Company has the non-exclusive use of approximately 2,275 square feet of office space and common space for which it paid $11,185 per month plus 10.77% of "additional rent". In the three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004, 2003 and 2002, the Company paid such affiliate approximately $39,000, $39,000, $162,000, $159,000 and $153,000 respectively, in connection with this licensing agreement. The terms of such sublease were reviewed and approved by the Audit Committee. If the Company must vacate the space, it believes there will be adequate alternative space available.

e. American Casino billed the Sands Hotel and Casino (the "Sands") approximately $136,000, $50,000, $387,500, $191,000 and $27,900, respectively, for administrative services performed by Stratosphere personnel during the three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004, 2003 and 2002.

f. NEG received management fees from unconsolidated affiliates of approximately $3.3 million, $2.6 million, $6.9 million, $6.6 million and $7.6 million in the three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004, 2003 and 2002, respectively.

g. For the three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004, 2003 and 2002, the Company paid approximately $228,000, $61,000, $325,000, $273,000 and $160,900, respectively, to an affiliate of the General Partner, XO Communications, Inc, for telecommunication services.

h. See Note 14c. and 12b. regarding the purchase of TransTexas and Panaco debt, respectively, from Icahn affiliates.

i. See Note 12a. regarding the purchase of Atlantic Holdings Notes from Icahn affiliates.

j. See Note 17 regarding additional related party obligations.

k. See Note 29 regarding subsequent events.

4. Investment in U.S. Government and Agency Obligations

The Company has investments in U.S. Government and Agency Obligations as follows (in $ millions):

	March 31, 2005 (Unaudited)		December 31, 2004		December 31, 2003	
	Cost Basis	Carrying Value	Cost Basis	Carrying Value	Cost Basis	Carrying Value
Available for Sale:						
Matures in:						
less than 1 year.	$ 68.9	$ 68.9	$ 96.8	$ 96.8	$ 52.8	$ 52.6
2-5 years	5.6	5.5	5.6	5.5	9.0	9.0
	$ 74.5	$ 74.4	$ 102.4	$ 102.3	$ 61.8	$ 61.6

5. Marketable Equity and Debt Securities (in $Millions)

	March 31, 2005 (Unaudited)		December 31, 2004		December 31, 2003	
	Cost Basis	Carrying Value	Cost Basis	Carrying Value	Cost Basis	Carrying Value
Available for Sale:						
Philip Service Corporation(a):						
Equity	$ —	$ —	$ —	$ —	$	$ —
Corporate bonds(b)	—	—	—	—	45.1	51.6
Other(c)	72.4	68.5	2.2	2.2	1.3	4.2
Total	$ 72.4	$ 68.5	$ 2.2	$ 2.2	$ 46.4	$ 55.8

a. At December 31, 2002, the Company owned the following approximate interests in Philip Service Corporation ("Philip"): (1) 1.8 million common shares, (2) $14.2 million in secured term debt, and (3) $10.9 million in accreted secured convertible payment-in-kind debt. The Company had an approximate 7% equity interest in Philip and an Icahn affiliate had an approximate 38% equity interest. Icahn affiliates also owned term and payment-in-kind debt.

The market value of Philip's common stock declined steadily since it was acquired by the Company. In 2002, based on a review of Philip's financial statements, management of the Company deemed the decrease in value to be other than temporary. As a result, the Company wrote down its investment in Philip's common stock by charges to earnings of $8,476,000 and charges to other comprehensive income ("OCI") of $761,000 in the year ended December 31, 2002. This investment had been previously written down by approximately $6.8 million in charges to earnings. The Company's adjusted carrying value of Philip's common stock was approximately $200,000 at December 31, 2002.

In June 2003, Philip announced that it and most of its wholly owned U.S. subsidiaries filed voluntary petitions under Chapter 11 of the Federal Bankruptcy Code.

In the year ended December 31, 2003, management of the Company determined that it was appropriate to write-off the balance of its investment in the Philip's common stock by a charge to

earnings of approximately $961,000; of this amount $761,000 was previously charged to other comprehensive income in 2002, which was reversed in 2003, and included in the $961,000 charge to earnings.

Approximately $6.6 million of charges to OCI were reversed and the investments were reclassified at their original cost to "Other investments" at December 31, 2002. These adjustments had no effect on the Company's reported earnings for the year ended December 31, 2002.

In 2003, the cost basis of the debt was approximately $22.1 million. As previously mentioned, Philip filed for bankruptcy protection in June 2003. Management of the Company reviewed Philip's financial statements, bankruptcy documents and the prices of recent purchases and sales of the debt and determined this investment to be impaired. Based upon this review, management concluded the fair value of the debt to be approximately $3.3 million; therefore, the Company recorded a write-down of approximately $18.8 million by a charge to earnings which was included in "Write-down of marketable equity and debt securities and other investments" in the Supplemental Consolidated Statements of Earnings in the year ended December 31, 2003. In December 2003, the Company sold two-thirds of its term and paid-in-kind ("PIK") debt with a basis of $2.2 million for $2.6 million, generating a gain of $0.4 million.

Philip emerged from bankruptcy on December 31, 2003 as a private company controlled by an Icahn affiliate. The Company's remaining interest in the debt was delivered and exchanged for approximately 443,000 common shares representing a 4.4% equity interest in the new Philip, valued at the carrying value of the debt at December 31, 2004 of $0.7 million.

b. In December 2003, the Company acquired approximately $86.9 million principal amount of corporate bonds for approximately $45.1 million. These bonds were classified as available for sale securities. Available for sale securities are carried at fair value on the balance sheet. Unrealized holding gains and losses are excluded from earnings and reported as a separate component of Partners' Equity. At December 31, 2003, the carrying value of the bonds was approximately $51.6 million and accumulated other comprehensive income ("OCI") was approximately $6.5 million. This OCI was reversed in the year ended December 31, 2004 upon the sale of corporate bonds. In the year ended December 31, 2004, the Company sold the debt securities for approximately $82.3 million, recognizing a gain of $37.2 million.

c. In the three months ended March 31, 2005, the Company purchased approximately $66.5 million of equity securities. Such securities are treated as available for sale. In the three months ended March 31, 2005 (unaudited) the Company recorded in Partners' Equity approximately $2.4 million of unrealized losses on such securities.

6. Due from Brokers

In November and December 2004 and during the first quarter of 2005, the Company sold short certain equity securities which resulted in the following (in $000's):

a. $147,223 at March 31, 2005 (unaudited) and $123,001 at December 31, 2004—Due From Brokers—Net proceeds from short sales of equity securities and cash collateral held by brokerage institutions against our short sales.

b. $83,750 at March 31, 2005 (unaudited) and $90,674 at December 31, 2004—Securities Sold Not Yet Purchased—Our obligation to cover the short sales of equity securities described above. The Company recorded unrealized losses on securities sold short of $23.6 million in the year ended December 31, 2004 reflecting an increase in price in the securities sold short. This amount has been recorded in the consolidated statements of earnings for the year then ended in the respective caption. The Company recorded unrealized gains on securities sold short of $21.7 million in the three months ended March 31, 2005 reflecting a decrease in price of the securities sold short. This amount has been recorded in the supplemental consolidated statements of earnings for the three months ended March 31, 2005 in the respective caption.

7. Other Investments (in $000's)

	Balance at		
	March 31,	December 31,	
	2005	2004	2003
	(Unaudited)		
Peninsula/Hampton & Alex Hotel(a) and (b)	$ —	$ —	$ 42,030
WestPoint Stevens(c)	205,850	205,850	—
Union Power Partners L.P. and Panda Gila River L.P.(d)	37,973	39,316	—
Other	779	782	8,298
	$ 244,602	$ 245,948	$ 50,328

a. On November 30, 2000, the Company entered into a mezzanine loan agreement to fund $23 million in two tranches to an unaffiliated borrower. The funds were to be used for certain initial development costs associated with a 65 unit condominium property located at 931 1st Avenue in New York City. The first tranche of $10 million was funded on November 30, 2000 and provided for interest accruing at a rate of 25% per annum, with principal and interest due at maturity, May 29, 2003. Also, in November 2000, approximately $3.7 million of the second tranche of the loan was funded. The balance of approximately $9.3 million was funded in installments during 2001. The second tranche provided for interest accruing at a rate of 21.5% per annum, with principal and interest due at maturity, November 29, 2002. The loans were payable at any time from the proceeds of unit sales, after satisfaction of senior debt of approximately $45 million. The loans were secured by the pledge of membership interests in the entity that owns the real estate. In May 2002, the Company received approximately $31.3 million for prepayment of the mezzanine loans. The balance of the prepayment of $8.3 million represented accrued interest ($7.9 million) and exit fees ($0.4 million), which amounts were recognized as "Interest income on U.S. Government and Agency obligations and other investments" and "Dividend and other income" respectively, in the Supplemental Consolidated Statements of Earnings for the year ended December 31, 2002.

b. At December 31, 2002, the Company had funded two mezzanine loans for approximately $23.2 million and had commitments to fund, under certain conditions, additional advances of approximately $5 million. Both loans had an interest rate of 22% per annum compounded monthly. The Peninsula loan, for a Florida condominium development, which had a term of 24 months from the date of funding, February 2002, was repaid in full in 2003. Approximately $6.8 million of interest income was recorded and is included in "Interest income on U.S. Government and Agency obligations and other investments" in the Supplemental Consolidated Statements of Earnings for the year ended December 31, 2003. The Alex Hotel loan, for a New York City hotel with approximately 200 rooms,

had a term of 36 months from the closing date, April 2002. At December 31, 2003, accrued interest of approximately $4.4 million had been deferred for financial statement purposes pending receipt of principal and interest payments in connection with this loan. Origination fees of $3.0 million have been received in connection with one of the mezzanine loans and approximately $1.5 million and $1.1 million has been recognized in "Dividend and other income" in the Supplemental Consolidated Statements of Earnings in the years ended December 31, 2003 and 2002 respectively. In February 2003, the Company funded the Hampton mezzanine loan for approximately $30 million on a Florida condominium development. The loan was due in 18 months with one six month extension and had an interest rate of 22% per annum compounded monthly. At December 31, 2003, accrued interest of approximately $6.7 million had been deferred for financial statement purposes pending receipt of principal and interest payments in connection with this loan. On April 30, 2004, the Company received approximately $16.7 million for the prepayment of the Alex Hotel loan. The principal amount of the loan was $11 million. The prepayment included approximately $5.7 million of accrued interest, which was recognized as interest income in the year ended December 31, 2004.

c. In 2004, the Company purchased approximately $278.1 million principal amount of secured bank debt of WestPoint Stevens, a company currently operating as a debtor in possession under Chapter 11 of the U.S. Bankruptcy Code, for a purchase price of approximately $205.8 million. Approximately $193.6 million principal amount is secured by a first priority lien of certain assets of WestPoint and approximately $84.5 million principal amount is secured by a second priority lien. Interest income totaled approximately $5.1 million and $7.2 million in the three months ended March 31, 2005 (unaudited) and the year ended December 31, 2004 and is included in "Interest income on U.S. Government and Agency obligations and other investments" in the Supplemental Consolidated Statements of Earnings for the year then ended. Based on the latest available information, the Company has not accreted this debt and does not believe that an other than temporary impairment has been identified.

d. In 2004, the Company purchased approximately $71.8 million of secured bank debt of Union Power Partners L.P. and Panda Gila River L.P. for a purchase price of approximately $39.3 million. No interest is currently being received on this debt. Based on the latest available information, the Company has not accreted this debt and does not believe that an other than temporary impairment has been identified.

8. Real Estate Leased to Others Accounted for Under the Financing Method

Real estate leased to others accounted for under the financing method is summarized as follows (in $000's):

	March 31,	December 31,	
	2005	2004	2003
	(Unaudited)		
Minimum lease payments receivable	$ 87,846	$ 97,725	$ 161,785
Unguaranteed residual value	43,422	48,980	74,651
	131,268	146,705	236,436
Less unearned income	51,579	57,512	99,080
	79,689	89,193	137,356
Less current portion of lease amortization	3,740	3,912	5,738
	$ 75,949	$ 85,281	$ 131,618

The following is a summary of the anticipated future receipts of the minimum lease payments receivable at December 31, 2004 (in $000's):

Year Ending December 31,	Amount
2005	$ 11,941
2006	11,746
2007	10,832
2008	9,476
2009	9,255
Thereafter	44,475
	$ 97,725

At December 31, 2004 and 2003, approximately $73,144,000 and $107,543,000, respectively, of the net investment in financing leases was pledged to collateralize the payment of nonrecourse mortgages payable.

9. Real Estate Leased to Others Accounted for Under the Operating Method

Real estate leased to others accounted for under the operating method is summarized as follows (in $000's):

	March 31,	December 31,	
	2005	2004	2003
	(Unaudited)		
Land	$ 13,286	$ 13,666	$ 24,040
Commercial Buildings	52,672	45,972	83,252
	65,958	59,638	107,292
Less accumulated depreciation	14,831	10,520	30,849
	$ 51,127	$ 49,118	$ 76,443

The following is a summary of the anticipated future receipts of minimum lease payments under non-cancelable leases at December 31, 2004 (in $000's):

Year Ending December 31,	Amount
2005	$ 7,186
2006	6,232
2007	5,649
2008	5,383
2009	5,001
Thereafter	19,753
	$ 49,204

At December 31, 2004 and 2003, approximately $14,166,000 and $15,630,000, respectively, of net real estate leased to others was pledged to collateralize the payment of non-recourse mortgages payable.

Property held for sale (in $000's):

	March 31,	December 31,	
	2005	2004	2003
	(Unaudited)		
Leased to others	$ 40,035	$ 74,444	$ 146,416
Vacant	450	450	2,550
	40,485	74,894	148,966
Less accumulated depreciation	6,490	16,873	20,153
	$ 33,995	$ 58,021	$ 128,813

At December 31, 2004 and 2003, approximately $34,881,000 and $105,984,000, respectively, of real estate held for sale was pledged to collateralize the payment of non-recourse mortgages payable.

The following is a summary of income from discontinued operations including the hotel and resort properties described in note 11 (in $000's):

	Three Months Ended March 31,		Year Ended December 31,		
	2005	2004	2004	2003	2002
	(Unaudited)				
Rental income	$ 1,462	$ 5,871	$ 15,658	$ 23,093	$ 21,073
Hotel and resort operating income	709	1,064	3,868	6,128	5,676
	2,171	6,935	19,526	29,221	26,749
Mortgage interest expense	399	1,726	3,858	7,208	6,737
Depreciation and amortization	31	210	1,244	5,129	4,464
Property expenses	147	1,107	3,123	3,550	3,409
Hotel and resort operating expenses	637	674	3,801	5,681	5,202
	1,214	3,717	12,026	21,568	19,812
Income from discontinued operations	$ 957	$ 3,218	$ 7,500	$ 7,653	$ 6,937

10. Hotel and Casino Operating Properties

In September 2000, Stratosphere's Board of Directors approved a going private transaction proposed by the Company and an affiliate of Icahn. On February 1, 2001 the Company entered into a merger agreement with Stratosphere under which the Company would acquire the remaining shares of Stratosphere that it did not currently own. The Company owned approximately 51% of Stratosphere and Mr. Icahn owned approximately 38.6%. The Company, subject to certain conditions, agreed to pay approximately $44.3 million for the outstanding shares of Stratosphere not currently owned by it. Stratosphere stockholders not affiliated with Icahn would receive a cash price of $45.32 per share and

Icahn related stockholders would receive a cash price of $44.33 per share. This transaction was completed in December 2002 after shareholders' approval.

The acquisition by the Company of the minority shares not owned by an Icahn affiliate has been accounted for as a purchase in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*. The acquisition by the Company of the common stock held by an Icahn affiliate has been recorded at historical cost. The excess of the affiliate's historical cost over the amount of the cash disbursed, which amounted to $21,151,000, has been accounted for as an addition to the General Partner's equity.

On January 5, 2004, American Casino, an indirect wholly-owned subsidiary of the Company, entered into an agreement to acquire two Las Vegas casino/hotels, Arizona Charlie's Decatur and Arizona Charlie's Boulder, from Carl C. Icahn and an entity affiliated with Mr. Icahn, for an aggregate consideration of $125.9 million. Upon obtaining all approvals necessary under gaming laws, the acquisition was completed on May 26, 2004. The terms of the transactions were approved by the Audit Committee, which was advised by its independent financial advisor and by counsel. As previously contemplated, upon closing, the Company transferred 100% of the common stock of Stratosphere to American Casino. As a result, following the acquisition and contributions, American Casino owns and operates three gaming and entertainment properties in the Las Vegas metropolitan area. The Company consolidates American Casino and its subsidiaries in the Company's financial statements. In accordance with generally accepted accounting principles, assets transferred between entities under common control are accounted for at historical costs similar to a pooling of interests, and the financial statements of previously separate companies for periods prior to the acquisition are restated on a combined basis. The Company's December 31, 2003 and 2002 consolidated financial statements have been restated to reflect the acquisition of Arizona Charlie's Decatur and Arizona Charlie's Boulder.

Earnings, capital contributions and distributions of the two Arizona Charlie's entities prior to the acquisition have been allocated to the General Partner. In accordance with the purchase agreement, prior to the acquisition, capital contributions of $22.8 million were received from and capital distributions of $17.9 million were paid to affiliates of Mr. Icahn. The assets acquired and liabilities assumed in this acquisition have been accounted for at historical cost. A reduction of $125.9 million, reflecting the purchase price, has been made to the General Partner's equity in May 2004.

Also in January 2004, American Casino closed on its offering of senior secured notes due 2012. The Notes, in the aggregate principal amount of $215 million, bear interest at the rate of 7.85% per annum. The proceeds were held in escrow pending receipt of all approvals necessary under gaming laws and certain other conditions in connection with the acquisition of Arizona Charlie's Decatur and Arizona Charlie's Boulder. Upon satisfaction of all closing conditions on May 26, 2004, the proceeds of the offering were released from escrow. American Casino used the proceeds of the offering for the acquisition, to repay intercompany indebtedness and for distributions to the Company.

American Casino's operations for the three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004, 2003 and 2002 have been included in "Hotel and casino operating income and expenses" in the Supplemental Consolidated Statements of Earnings. Hotel and casino operating expenses include all expenses except for depreciation and amortization and income tax provision. Such expenses have been included in "Depreciation and amortization expense" and "Income tax expense" in the Supplemental Consolidated Statements of Earnings. American Casino's

depreciation and amortization expense was $5.4 million, $5.9 million, $23.5 million, $20.2 million and $20.2 million for three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004, 2003 and 2002, respectively. American Casino's income tax provision was $4.5 million, $4.4 million, $10.1 million and $4.9 million for the three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004 and 2002, respectively. American Casino recorded an income tax benefit of $1.8 million for the year ended December 31, 2003.

The amount of revenues and expenses attributable to casino, hotel and restaurants, respectively, is summarized as follows:

	Three Months Ended March 31,		Year Ended December 31,		
	2005	2004	2004	2003	2002
	(Unaudited)		(in $000's)		
Hotel and casino operating income:					
Casino	$ 47,729	$ 42,592	$ 167,972	$ 147,888	$ 143,057
Hotel	15,793	13,888	54,653	47,259	44,263
Food and beverage	17,076	16,701	66,953	59,583	56,349
Tower, retail, and other income	8,206	7,976	33,778	30,336	28,247
Gross revenues	88,804	81,157	323,356	285,066	271,916
Less promotional allowances	(5,966)	(6,148)	(23,375)	(22,255)	(21,893)
Net revenues	$ 82,838	$ 75,009	$ 299,981	$ 262,811	$ 250,023
Hotel and casino operating expenses:					
Casino	$ 15,900	$ 15,696	$ 61,985	$ 61,284	$ 59,879
Hotel	6,023	5,596	24,272	22,074	20,142
Food and beverage	12,376	11,620	48,495	44,990	43,393
Other operating expenses	3,619	3,151	14,131	13,524	14,505
Selling, general, and administrative	19,706	18,180	78,720	74,985	80,019
Total expenses	$ 57,624	$ 54,243	$ 227,603	$ 216,857	$ 217,938

The ownership and operation of the Las Vegas casinos are subject to the Nevada Gaming Control Act and regulations promulgated thereunder, various local ordinances and regulations, and are subject to the licensing and regulatory control of the Nevada Gaming Commission, the Nevada State Gaming Control Board, and various other county and city regulatory agencies, including the City of Las Vegas.

American Casino's property and equipment consist of the following as of March 31, 2005 (unaudited), December 31, 2004 and 2003 (in $000's):

	March 31,	December 31,	
	2005	2004	2003
Land and improvements, including land held for development	$ 47,274	$ 47,210	$ 47,041
Building and improvements	221,847	221,314	220,280
Furniture, fixtures and equipment	112,379	108,595	98,586
Construction in progress	7,577	7,348	7,224
	389,077	384,467	373,131
Less accumulated depreciation and amortization	100,187	95,107	74,428
	$ 288,890	$ 289,360	$ 298,703

Included in property and equipment at March 31, 2005 (unaudited) and December 31, 2004 and 2003 are assets recorded under capital leases of $3.6 million, $4.0 million and $4.0 million, respectively.

In connection with the purchase of the master lease from Strato-Retail, American Casino assumed lessor responsibilities for various non-cancelable operating leases for certain retail space. The future minimum lease payments to be received under these leases for years subsequent to December 31, 2004 are as follows:

	(in $000s)
Years ending December 31,	
2005	$ 5,877
2006	4,778
2007	3,615
2008	2,177
2009	1,224
Thereafter	959
Total Payments	$ 18,630

The above minimum rental income does not include contingent retail income contained within certain retail operating leases. In addition, American Casino is reimbursed by lessees for certain operating expenses.

11. Hotel and Resort Operating Properties

a. The Company owns a hotel and resort property that is part of a master planned community situated in the town of Mashpee, located on Cape Cod in Massachusetts. This property includes two golf courses, other recreational facilities, condominium and time share units and land for future development.

Total initial costs of approximately $28 million were classified as follows: approximately $17.4 million as "Hotel and resort operating properties", $8.9 million as "Land and construction-in-progress" and $1.7 million as "Receivables and other current assets" on the Supplemental Consolidated Balance Sheet.

Resort operations have been included in the "Hotel and resort operating income and expenses" in the Supplemental Consolidated Statements of Earnings. Net hotel and resort operations for this property ("hotel and resort operating income" less "hotel and resort operating expenses") resulted in income (loss) of approximately ($257,000), ($240,000), $2,243,000, $3,033,000 and $1,909,000 for the three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004, 2003, and 2002, respectively. Hotel and resort operating expenses include all expenses except for approximately $700,000, $600,000, $2,544,000, $2,451,000 and $1,833,000 for the three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004, 2003 and 2002 of depreciation and amortization, respectively, which is included in such caption in the Supplemental Consolidated Statements of Earnings.

Resort operations are highly seasonal in nature with peak activity occurring from June to September.

b. The Company owned a hotel located in Miami, Florida which had a carrying value of approximately $6.4 million at December 31, 2003, and was unencumbered by any mortgages. Approximately $1.3 million of capital improvements were completed in the year ended December 31, 2002.

The Company had a management agreement for the operation of the hotel with a national management organization. As a result of the decision to sell the property in 2004, the operating results for the hotel have been reclassified to discontinued operations for all periods. Net hotel and resort operations ("hotel and resort operating revenues" less "hotel and resort operating expenses") totaled approximately $306,000, $596,000 and $494,000 for the years ended December 31, 2004, 2003 and 2002, respectively and have been included in discontinued operations in the Supplemental Consolidated Statements of Earnings. Depreciation expense of $0, $210,000 and $374,000 for the years ended December 31, 2004, 2003 and 2002, respectively, have been included in discontinued operations in the Consolidated Statements of Earnings.

In 2004, the Company sold the hotel located in Miami, Florida for a loss of approximately $0.9 million which included a license termination fee of approximately $0.7 million.

c. During the three months ended March 31, 2005, the Company sold a golf resort in Tampa, Florida for $8.5 million resulting in a gain on sale of $5.7 million. Net hotel and resort operations for this property totalling approximately $41,000, $61,000, ($378,000), ($311,000) and ($156,000) for the three months ended March 31, 2005 and 2004, and the years ended December 31, 2004, 2003 and 2002, respectively, have been reclassified to discontinued operations.

12. Investment in Debt Securities of Affiliates (in $000's):

	March 31,	December 31,	
	2005	2004	2003
	(Unaudited)		
Atlantic Holdings/GB Holdings(a)	$ 60,650	$ 60,004	$ 24,696
Panaco(b)	36,643	38,000	—
	$ 97,293	$ 98,004	$ 24,696
Less current portion	(5,429)	(5,429)	—
	$ 91,864	$ 92,575	$ 24,696

a. In 1998 and 1999, the Company acquired an interest in the Sands, located in Atlantic City, New Jersey, by purchasing the principal amount of approximately $31.4 million of First Mortgage Notes ("Notes") issued by GB Property Funding Corp. ("GB Property"). GB Property was organized as a special purpose entity for the borrowing of funds by Greate Bay Hotel and Casino, Inc. ("Greate Bay"). The purchase price for such notes was approximately $25.3 million. An affiliate of the General Partner also made an investment in the Notes of GB Property. A total of $185 million of such Notes were issued.

Greate Bay owned and operated the Sands, a destination resort complex, located in Atlantic City, New Jersey. On January 5, 1998, GB Property and Greate Bay filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code to restructure its long term debt.

In July 2000, the U.S. Bankruptcy Court ruled in favor of the reorganization plan proposed by affiliates of the General Partner which provided for an additional investment of $65 million by the Icahn affiliates in exchange for a 46% equity interest, with bondholders (which also includes the Icahn affiliates) to receive $110 million in new notes of GB Property First Mortgage ("GB Notes") and a 54% equity interest. The plan, which became effective September 29, 2000, provided the Icahn affiliates with a controlling interest.

As required by the New Jersey Casino Control Act (the "Casino Control Act"), the Partnership Agreement was amended to provide that securities of the Company are held subject to the condition that if a holder thereof is found to be disqualified by the Casino Control Commission, pursuant to the provisions of the Casino Control Act, such holder shall dispose of his interest in the Company in accordance with the Casino Control Act.

At December 31, 2003, the Company owned approximately $26.9 million principal amount of GB Notes which were accounted for as held-to-maturity securities. These notes bore interest of 11% per annum and were due to mature in September 2005. The carrying value of these notes at December 31, 2003 was approximately $24.7 million.

As part of the Atlantic Holdings Consent Solicitation and Offer to Exchange further described in Note 13, the Company tendered its GB Notes and received $26.9 million of 3% Notes due 2008 issued by Atlantic Coast Entertainment Holdings, Inc. (the "Atlantic Holdings Notes").

On December 27, 2004, the Company purchased approximately $37.0 million principal amount of the Atlantic Holdings Notes from two Icahn affiliates for cash consideration of $36.0 million. As a result, the Company owns approximately 96.4% of the outstanding Atlantic Holdings Notes. The carrying value of the Atlantic Holdings Notes at March 31, 2005 (unaudited) and December 31, 2004 is

approximately $60.7 million and $60.0 million, respectively. Interest income of approximately $0.5 million, $0.7 million and $2.5 million was recognized in the three months ended March 31, 2005 and 2004 (unaudited) and the year ended December 31, 2004, respectively and $2.9 million was recognized in each of the years ended December 31, 2003 and 2002.

b. On December 6, 2004, the Company purchased all of the membership interests of Mid River LLC ("Mid River") from Icahn affiliates for an aggregate purchase price of $38,125,999. The assets of Mid River consist of $38,000,000 principal amount of term loans of Panaco (the "Panaco Debt"). The purchase price included accrued but unpaid interest. The principal is payable in twenty-seven equal quarterly installments of the unpaid principal of $1,357,143 commencing on March 15, 2005, through and including September 15, 2011. Interest is payable quarterly at a rate per annum equal to the LIBOR daily floating rate plus four percent, which was 6.346% at December 31, 2004. Interest income of $400,822 and $155,991 was recognized in the three months ended March 31, 2005 (unaudited) and the year ended December 31, 2004, respectively, and is included in "Interest income on U.S. Government and Agency obligations and other investments" in the Supplemental Consolidated Statements of Earnings for the year then ended. (See Note 29).

13. Equity Interest in GB Holdings, Inc.

At December 31, 2003, the Company owned approximately 3.6 million shares, or 36.3%, of GB Holdings, Inc. ("GB Holdings"), the holding company for the Sands (See Note 12). The Company also owned approximately $26.9 million principal amount of GB Notes.

On June 30, 2004, GB Holdings announced that its stockholders approved the transfer of the Sands to its wholly-owned subsidiary, Atlantic Holdings, in connection with the restructuring of GB Holdings debt.

On July 22, 2004, Atlantic Holdings announced that its Consent Solicitation and Offer to Exchange, in which it offered to exchange the Atlantic Holdings Notes for GB Notes, expired and approximately $66 million principal amount of the GB Notes (approximately 60% of the outstanding GB Notes) were tendered to Atlantic Holdings for exchange. On July 23, 2004, 10 million warrants were distributed, on a pro rata basis, to stockholders. The warrants, under certain conditions, will allow the holders to purchase common stock of Atlantic Holdings at a purchase price of $.01 per share, representing 27.5% of the outstanding common stock of Atlantic Holdings, on a fully diluted basis. Mr. Icahn and his affiliated companies hold approximately 77.5% of the GB Holdings stock and held approximately 58.2% of the GB Notes, of which the Company owns approximately 36.3% of the common stock and held approximately 24.5% of the debt. This debt is included in "Investment in debt securities of Affiliates" in the consolidated balance sheets. The Company and Mr. Icahn tendered all of their GB Notes in the exchange. The Company received:

- $26,914,500 principal amount of the Atlantic Holdings Notes;
- $3,620,753 in cash representing accrued interest on the GB Notes and $100 per $1,000 in principal amount of the GB Notes; and
- 3,627,711 warrants, which under certain conditions will allow the Company to purchase approximately 998,000 shares of common stock at $.01 per share of Atlantic Holdings, representing approximately 10% of the outstanding common stock of Atlantic Holdings, on a fully diluted basis.

The Company reflects its equity interest in GB Holdings as "Equity interest in GB Holdings, Inc." in the Supplemental Consolidated Balance Sheets.

The Company owns warrants to purchase, upon the occurrence of certain events, approximately 10.0% of the fully diluted common stock of Atlantic Holdings. Atlantic Holdings owns 100% of ACE Gaming LLC, the owner and operator of the Sands. The Company has entered into an agreement with affiliates of Mr. Icahn, to acquire an additional approximate 41.2% of the outstanding common stock of GB Holdings and warrants to purchase, upon the occurrence of certain events, an additional approximate 11.3% of the fully diluted common stock of Atlantic Holdings for an aggregate of $12.0 million of depositary units, plus an aggregate of up to $6.0 million of Depositary Units, if GB Holdings meets certain earnings targets during 2005 and 2006. See Note 29 regarding the Company's agreement to purchase an approximate 41.2% interest in GB Holdings from an affiliate of Mr. Icahn. Upon consummation of the purchase agreement, we will own approximately 77.5% of the outstanding GB Holdings common stock and warrants to purchase, upon the occurrence of certain events, approximately 21.3% of the fully diluted common stock of Atlantic Holdings.

In the year ended December 31, 2004, the Company recorded an impairment loss of $15.6 million on its equity investment in GB Holdings. The purchase price pursuant to the agreement described above was less than our carrying value, approximately $26.2 million, for the approximately 36.3% of the outstanding GB Holdings common stock that the Company owns. In the March 31, 2005 Form 10-Q of GB Holdings, there was a working capital deficit of approximately $39 million and there was approximately $40 million of debt maturing in September 2005.

14. Oil and Gas Operating Properties

a. National Energy Group, Inc.

In October 2003, pursuant to a Purchase Agreement dated as of May 16, 2003, the Company acquired certain debt and equity securities of NEG from entities affiliated with Mr. Icahn for an aggregate cash consideration of approximately $148.1 million plus approximately $6.7 million in cash of accrued interest on the debt securities. The agreement was reviewed and approved by the Audit Committee, which was advised by its independent financial advisor and legal counsel. The securities acquired were $148,637,000 in principal amount of outstanding 10$^{3}/_{4}$% Senior Notes due 2006 of NEG and 5,584,044 shares of common stock of NEG. As a result of the foregoing transaction and the acquisition by the Company of additional securities of NEG prior to the closing, the Company beneficially owns in excess of 50% of the outstanding common stock of NEG.

NEG owns a 50% interest in Holding LLC, the other 50% interest in Holding LLC is held by Gascon Partners ("Gascon") an Icahn affiliate and managing member. Holding LLC owns NEG Operating LLC ("Operating LLC") which owns operating oil and gas properties managed by NEG. Under the Holding LLC operating agreement, as of September 30, 2004, NEG is to receive guaranteed payments of approximately $39.9 million in addition to a priority distribution of approximately $148.6 million before the Icahn affiliate receives any monies. Due to the substantial uncertainty that NEG will receive any distribution above the priority and guaranteed payments amounts, NEG accounts for its investment in Holding LLC as a preferred investment.

In connection with a credit facility obtained by Holding LLC, NEG and Gascon have pledged as security their respective interests in Holding LLC.

b. NEG Investment in NEG Holding LLC

As explained below, NEG's investment in Holding LLC is recorded as a preferred investment. The initial investment was recorded at historical carrying value of the net assets contributed with no gain or loss recognized on the transfer. The Company currently assesses its investment in Holding LLC through a cash flow analysis to determine if Holding LLC will have sufficient cash flows to fund the guaranteed payments and priority distribution. This analysis is done on a quarterly basis. Holding LLC is required to make SFAS 69 disclosures on an annual basis, which include preparation of reserve reports by independent engineers and cash flow projections. These cash flow projections are the basis for the cash flow analysis. The Company follows the conceptual guidance of SFAS 144 "Accounting for the Impairment of Long-Lived Assets" in assessing any potential impairments in Holding LLC.

Summarized financial information for Holding LLC is as follows (in $000's):

	March 31,	Year Ended December 31,	
	2005	2004	2003
	(Unaudited)		
Current assets	$ 30,991	$ 23,146	$ 33,415
Noncurrent assets(1)	251,438	237,127	190,389
Total assets	$ 282,429	$ 260,273	$ 223,804
Current liabilities	$ 35,699	$ 22,456	$ 14,253
Noncurrent liabilities	83,732	63,636	48,514
Total liabilities	119,431	86,092	62,767
Members' equity	162,998	174,181	161,037
Total liabilities and members' equity	$ 282,429	$ 260,273	$ 223,804

(1) Primarily oil and gas properties

	Three Months Ended March 31,		Year EndedDecember 31,		
	2005	2004	2004	2003	2002
			(in $000's)		
	(Unaudited)				
Total revenues	$ 2,870	$ 25,569	$ 78,727	$ 77,606	$ 35,900
Costs and expenses	(13,137)	(11,044)	(47,313)	(46,766)	(32,064)
Operating income	(10,267)	14,525	31,414	30,840	3,836
Other income (expense)	(916)	(358)	(2,292)	30	10,090
Net income (loss)	$ (11,183)	$ 14,167	$ 29,122	$ 30,870	$ 13,926

In August 2000, pursuant to a plan of reorganization, Holding LLC was formed. Prior to September 2001, NEG owned and operated certain oil and gas properties. In September 2001, NEG contributed oil and natural gas properties in exchange for Holding LLC's obligation to pay the Company the guaranteed payments and priority distributions. The Company also received a 50% membership interest in Holding LLC. Gascon also contributed oil and natural gas assets and cash in exchange for future payments and a 50% membership interest. The Holding LLC operating agreement requires the payment of guaranteed payments and priority distributions to NEG in order to pay interest

on senior debt and the principal amount of the debt of $148.6 million in 2006. After the receipt by NEG of the guaranteed payments and priority distributions that total approximately $300 million, the agreement requires the distribution of an equal amount to Gascon. Holding LLC is contractually obligated to make the guaranteed payments and priority distributions to NEG and Gascon before any distributions can be made to the LLC interest.

NEG originally recorded its investment in Holding LLC at the historical cost of the oil and gas properties contributed into the LLC. In evaluating the appropriate accounting to be applied to this investment, NEG anticipated it will collect the guaranteed payments and priority distributions through 2006. However, based on cash flow projections prepared by the management of Holding LLC and its reserve engineers, there is substantial uncertainty that there will be any residual value in Holding LLC subsequent to the payment of the amounts required to be paid to Gascon. Due to this uncertainty, NEG has been accreting its investment in Holding LLC, the value of its preferred interest at the implicit rate of interest up to the guaranteed payments and priority distributions collected through 2006, recognizing the accretion income in earnings. Accretion income is periodically adjusted for changes in the timing of cash flows, if necessary due to unscheduled cash distributions. Receipt of guaranteed payments and the priority distribution are recorded as reductions in the preferred investment in Holding LLC. The preferred investment in Holding LLC is evaluated quarterly for other than temporary impairment. The rights of NEG upon liquidation of Holding LLC are identical to those described above and the Company considered those rights in determining the appropriate presentation.

Because of the continuing substantial uncertainty that there will be any residual value in Holding LLC after the guaranteed payments and priority distributions, no income other than the accretion is currently being given accounting recognition. NEG's preferred investment will be reduced to zero upon collection of the priority distributions in 2006. After that date, NEG will continue to monitor payments made to Gascon and, at such time as it would appear that there is any residual value to NEG's 50% interest in Holding LLC, it would receive accounting recognition. Throughout, and up to this point, NEG believes that the 50% interest in Holding LLC represents a residual interest that is currently valued at zero. The Company accounts for its residual equity investment in Holding LLC in accordance with APB 18.

The following is a roll forward of the Investment in Holding LLC as of March 31, 2005 (unaudited), December 31, 2004 and 2003 (in $000s):

	March 31,	December 31,	
	2005	2004	2003
	(Unaudited)		
Investment in Holding LLC at beginning of period	$ 87,800	$ 69,346	$ 108,880
Priority distribution from Holding LLC	—	—	(51,446)
Guaranteed payment from Holding LLC	—	(15,978)	(18,230)
Accretion of investment in Holding LLC	9,893	34,432	30,142
Investment in Holding LLC at end of period	$ 97,693	$ 87,800	$ 69,346

The Holding LLC Operating Agreement requires that distributions shall be made to both NEG and Gascon as follows:

1. Guaranteed payments are to be paid to NEG, calculated on an annual interest rate of 10.75% on the outstanding priority distribution amount. The priority distribution amount includes all

outstanding debt owed to entities owned or controlled by Carl C. Icahn, including the amount of NEG's 10.75% Senior Notes. As of March 31, 2005 (unaudited) and December 31, 2004, the priority distribution amount was $148.6 million which equals the amount of NEG's 10.75% Senior Notes due the Company. The guaranteed payments will be made on a semi-annual basis.

2. The priority distribution amount is to be paid to NEG. Such payment is to occur by November 6, 2006.

3. An amount equal to the priority distribution amount and all guaranteed payments paid to NEG, plus any additional capital contributions made by Gascon, less any distribution previously made by NEG to Gascon, is to be paid to Gascon.

4. An amount equal to the aggregate annual interest (calculated at prime plus $^1/_2$% on the sum of the guaranteed payments), plus any unpaid interest for prior years (calculated at prime plus $^1/_2$% on the sum of the guaranteed payments), less any distributions previously made by NEG to Gascon, is to be paid to Gascon.

5. After the above distributions have been made, any additional distributions will be made in accordance with the ratio of NEG's and Gascon's respective capital accounts.

In addition, the Holding LLC Operating Agreement contains a provision that allows Gascon at any time, in its sole discretion, to redeem the membership interest in Holding LLC at a price equal to the fair market value of such interest determined as if Holding LLC had sold all of its assets for fair market value and liquidated. Since all of the NEG's operating assets and oil and natural gas properties have been contributed to Holding LLC, as noted above, following such a redemption, NEG's principal assets would consist solely of its cash balances.

c. TransTexas Gas Corporation

1. On December 6, 2004, the Company purchased from affiliates of Mr. Icahn $27,500,000 aggregate principal amount, or 100%, of the outstanding term notes issued by TransTexas (the "TransTexas Notes"). The purchase price was $28,245,890, which equals the principal amount of the TransTexas Notes plus accrued but unpaid interest. The notes are payable annually in equal consecutive annual payments of $5,000,000, with the final installment due August 28, 2008. Interest is payable semi-annually in February and August at the rate of 10% per annum. The notes eliminate in consolidation due to the acquisition of TransTexas in April 2005.

2. On January 21, 2005, the Company entered into an agreement to acquire TransTexas from an affiliate of Mr. Icahn for an aggregate consideration of $180.0 million in cash, subject to certain purchase price adjustments. The acquisition was completed on April 6, 2005 for total consideration of $180.0 million. The terms of the transaction were approved by the Audit Committee, which was advised by its independent financial advisor and by counsel.

On November 14, 2002, TransTexas filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Texas, Corpus Christi Division (the "Bankruptcy Court"). The bankruptcy petition was filed in order to preserve cash and give TransTexas the opportunity to restructure its debt. TransTexas' First Amended Joint Plan of Reorganization submitted by Thornwood Associates LP ("Thornwood"), as modified on

July 8, 2003 (the "Plan"), was confirmed by the Bankruptcy Court on August 14, 2003 effective August 28, 2003 ("Effective Date"). Thornwood is an entity affiliated with Mr. Icahn.

As of the Effective Date, the entity affiliated with Mr. Icahn owned 89% of the equity interest in TransTexas. During June 2004, the entity affiliated with Mr. Icahn acquired an additional 5.7% of the outstanding shares of TransTexas from certain minority interest holders. During December 2004, TransTexas purchased the remaining 5.3% of the outstanding shares from the minority interest holders. The difference between the purchase price for both acquisitions and the minority interest liability was treated as a purchase price adjustment which reduced the full cost pool.

The Company consolidates TransTexas in the Company's supplemental consolidated financial statements. In accordance with generally accepted accounting principles, assets transferred between entities under common control are accounted for at historical costs similar to a pooling of interests, and the financial statements of previously separate companies for periods since the Effective Date are restated on a combined basis.

Earnings of TransTexas prior to the acquisition in April 2005 have been allocated to the General Partner. The assets acquired and liabilities assumed in this acquisition have been accounted for at historical cost. An increase of $116.3 million has been made to the General Partner's equity at the Effective Date as a result of the acquisition. A reduction of $180.0 million, reflecting the purchase price, will be made to the General Partner's equity in April 2005.

3. Capitalized Costs

Capitalized costs as of December 31, 2004 and 2003 relating to oil and gas producing activities are as follows (in $000s):

	2004	2003
Proved Properties	$ 221,351	$ 182,193
Unproved Properties	—	—
Other property and equipment	540	2,369
Total	221,891	184,562
Less: Accumulated depreciation, depletion and amortization	(53,755)	(15,641)
	$ 168,136	$ 168,921

Cost incurred in connection with property acquisition, exploration and development activities for the year ended December 31, 2004 and the period from August 28, 2003 to December 31, 2003 were as follows (in $000s, except depletion rate):

	2004	2003
Development costs	$ 14,284	$ 556
Exploration costs	33,202	—
Total	$ 47,486	$ 556
Depletion rate per MCFe	$ 4.70	$ 4.39

As of December 31, 2004 and 2003, all capitalized costs relating to oil and gas activities have been included in the full cost pool.

d. Supplemental Reserve Information (Unaudited)

The accompanying tables present information concerning the Company's oil and natural gas producing activities during the year ended December 31, 2004 and the period from August 28, 2003 to December 31, 2003 and are prepared in accordance with Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities."

Estimates of the Company's proved reserves and proved developed reserves were prepared by Netherland, Sewell & Associates, Inc., an independent firm of petroleum engineers, based on data supplied by them to the Company. Estimates relating to oil and gas reserves are inherently imprecise and may be subject to substantial revisions due to changing prices and new information, such as reservoir performance, production data, additional drilling and other factors becomes available.

Proved reserves are estimated quantities of oil, natural gas, condensate and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years form known reservoirs under existing economic and operating conditions. Natural gas liquids and condensate are included in oil reserves. Proved developed reserves are those proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Natural gas quantities represent gas volumes which include amounts that will be extracted as natural gas liquids. The Company's estimated net proved reserves and proved developed reserves of oil and condensate and natural gas for the year ended December 31, 2004 and for the period from August 28, 2003 to December 31, 2003 were as follows:

	2004		2003	
	Oil and Condensate (barrels)	**Gas (MCF)**	**Oil and Condensate (barrels)**	**Gas (MCF)**
Proved Reserves:				
Beginning of period	3,124,112	38,655,526	1,120,400	41,440,700
Increase (decrease) during the period attributable to:				
Revisions of previous estimates	234,521	(5,630,633)	2,351,163	(308,688)
Extensions and discoveries	78,453	16,875,613	—	—
Sales of reserves	—	—	—	—
Production	(918,905)	(5,788,974)	(347,451)	(2,476,486)
End of period	2,518,181	44,111,532	3,124,112	38,655,526
Proved developed reserves:				
Beginning of period	2,755,522	21,557,712	431,400	15,802,000
End of period(1)	2,410,912	26,179,029	2,755,522	21,557,712

(1) includes proved developed non-producing reserves for 2004 and 2003 of 788,042 and 57,441 barrels of oil and 10,479,632 and 4,586,423 mcf of gas, respectively.

Standardized Measure Information

The calculation of estimated future net cash flows in the following table assumed the continuation of existing economic conditions and applied year-end prices (except for future price changes as allowed by contract) of oil and gas to the expected future production of such reserves, less estimated future expenditures (based on current costs) to be incurred in developing and producing those reserves.

The standardized measure of discounted future net cash flows does not purport, nor should it be interpreted, to present the fair market value of the Company's oil and gas reserves. These estimates reflect proved reserves only and ignore, among other things, changes in prices and costs, revenues that could result from probable reserves which could become proved reserves in later years and the risks inherent in reserve estimates. The standardized measure of discounted future net cash flows relating to proved oil and gas reserves as of December 31, 2004 and 2003 is as follows:

	2004	2003
Future cash inflows	$ 354,725,200	$ 313,032,000
Future production costs	78,680,400	59,113,600
Future development costs	54,721,925	35,690,500
Future income taxes	—	—
Future net cash flows	221,322,875	218,227,900
Annual discount (10%) for estimated timing of cash flows	60,105,800	53,790,300
Standardized measure of discounted future net cash flows	$ 161,217,075	$ 164,437,600

Principle sources of change in the standardized measure of discounted future net cash flows for the year ended December 31, 2004 and the period from August 28, 2003 to December 31, 2003 was:

	2004	2003
Beginning of period	$ 164,437,600	$ 101,803,900
Sales, net of production costs	(47,635,549)	(16,761,000)
Net change in prices, net of production costs	(14,353,925)	31,943,125
Revisions of quantity estimates	(17,464,167)	44,507,391
Extensions and discoveries	74,451,060	—
Development costs incurred	14,056,670	556,000
Change in estimated future development costs	(28,921,504)	4,930,232
Accretion of discount	16,443,760	3,393,463
Changes in production rates and other	203,130	(5,935,511)
End of period	$ 161,217,075	$ 164,437,600

During recent years, there have been significant fluctuations in the prices paid for crude oil in the world markets. This situation has had a destabilizing effect on crude oil posted prices in the United States, including the posted prices paid by purchasers of the Company's crude oil. The net weighted average prices of crude oil and natural gas at December 31, 2004 and 2003, used in the above table were $38.60 and $25.91 per barrel of crude oil, respectively, and $5.84 and $6.00 per thousand cubic feet of natural gas, respectively.

e. See Note 29 pertaining to additional oil and gas acquisitions.

15. Significant Property Transactions

Information on significant property transactions during the three month period ended March 31, 2005 (unaudited) and the three-year period ended December 31, 2004 is as follows:

a. In September 2002, the Company purchased an industrial building located in Nashville, Tennessee for approximately $18.2 million. The building was constructed in 2001 and is fully leased to two tenants, Alliance Healthcare and Jet Equipment & Tools Inc., with leases expiring in 2011. The annual net operating income was anticipated to be approximately $1.6 million increasing to approximately $1.9 million by 2011. In October 2002, the Company closed a $12.7 million non-recourse mortgage loan on the Nashville, Tennessee property. The loan bore interest at 6.4% per annum and was due to mature in ten years. Required payments were interest only for the first three years and then principal amortization would commence based on a thirty-year amortization schedule. In June 2004, the Company sold the property for a selling price of $19.2 million. A gain of approximately $1.4 million was recognized in the year ended December 31, 2004 and is included in discontinued operations in the Consolidated Statements of Earnings.

At December 31, 2003, the property had a carrying value of approximately $18,066,000 and was encumbered by a non-recourse mortgage in the amount of $12,700,000.

b. In October 2002, the Company sold a property located in North Palm Beach, Florida for a selling price of $3.5 million. A gain of approximately $2.4 million was recognized in the year ended December 31, 2002.

c. In October 2003, the Company sold a property located in Columbia, Maryland to its tenant for a selling price of $11 million. A gain of approximately $5.8 million was recognized in the year ended December 31, 2003.

d. In the year ended December 31, 2004, of the 57 properties, the Company sold nine financing lease properties for approximately $43.6 million. The properties were encumbered by mortgage debt of approximately $26.8 million which was repaid from the sales proceeds. The carrying value of these properties was approximately $38.3 million; therefore, the Company recognized a gain on sale of approximately $5.3 million in the year ended December 31, 2004, which is included in income from continuing operations in the Supplemental Consolidated Statements of Earnings.

In the year ended December 31, 2004, of the 57 properties, the Company sold 48 operating and held for sale properties for approximately $201.8 million. The properties were encumbered by mortgage debt of approximately $67 million which was repaid from the sales proceeds. The carrying value of these properties was approximately $126.6 million. The Company recognized a gain on sale of approximately $75.2 million in year ended December 31, 2004, which is included in income from discontinued operations in the Supplemental Consolidated Statements of Earnings.

In the three months ended March 31, 2005, the Company sold four rental real estate properties and a golf resort for approximately $51.9 million which were encumbered by mortgage debt of approximately $10.7 million repaid from the sale proceeds.

Of the five properties, the Company sold one financing lease property for approximately $8.4 million encumbered by mortgage debt of approximately $3.8 million. The carrying value of this property was approximately $8.2 million; therefore, the Company recognized a gain on sale of approximately $0.2 million in the three months ended March 31, 2005, which is included in income

from continuing operations. The Company sold four operating properties for approximately $43.5 million encumbered by mortgage debt of approximately $6.9 million. The carrying value of these properties was approximately $24.8 million. The Company recognized a gain on sale of approximately $18.7 million in the three months ended March 31, 2005, which is included in income from discontinued operations.

At March 31, 2005, the Company had 11 properties under contract or as to which letters of intent had been executed by potential purchasers, all of which contracts or letters of intent are subject to purchaser's due diligence and other closing conditions. Selling prices for the properties covered by the contracts or letters of intent would total approximately $45.5 million. These properties are encumbered by mortgage debt of approximately $25.3 million. At March 31, 2005, the carrying value of these properties is approximately $29.1 million. In accordance with generally accepted accounting principles, only the real estate operating properties under contract or letter of intent, but not the financing lease properties, were reclassified to "Properties Held for Sale" and the related income and expense reclassified to "Income from Discontinued Operations."

e. In January 2004, in conjunction with its reinvestment program, the Company purchased a 34,422 square foot commercial condominium unit ("North Moore Condos") located in New York City for approximately $14.5 million. The unit contains a Citibank branch, a furniture store and a restaurant. Current annual rent income from the three tenants is approximately $1,289,000. The Company obtained mortgage financing of $10 million for this property in April 2004. The mortgage bears interest at the rate of 5.73% per annum, and matures in March 2014. Annual debt service is $698,760.

f. In July 2004, the Company purchased two Vero Beach, Florida waterfront communities, Grand Harbor and Oak Harbor ("Grand Harbor"), including their respective golf courses, tennis complex, fitness center, beach club and clubhouses. The acquisition also included properties in various stages of development, including land for future residential development, improved lots and finished residential units ready for sale. The purchase price was approximately $75 million, which included approximately $62 million of land and construction in progress. The Company plans to invest in the further development of these properties and the enhancement of the existing infrastructure.

16. Mortgages Payable

Mortgages payable, all of which are nonrecourse to the Company, are summarized as follows (in $000's):

Range of Interest Rates	Range of Maturities	2005 Annual Principal and Interest Payment	Balance At March 31, 2005	Balance At December 31, 2004	Balance At December 31, 2003
			(unaudited)		
5.630%–8.25%	10/15/07–10/01/14	$ 9,373	$ 80,191	$ 91,896	$ 180,989
Less current portion and mortgages on properties held for sale			(24,577)	(31,177)	(87,753)
			$ 55,614	$ 60,719	$ 93,236

The following is a summary of the contractual future principal payments of the mortgages (in $000's):

Year Ending December 31,	Amount
2005	$ 4,759
2006	5,116
2007	11,428
2008	24,385
2009	7,211
2010–2014	38,997
	$ 91,896

a. See Note 15a. for Mid-South Logistics financing in October 2002.

b. On May 16, 2003, the Company executed a mortgage note secured by a distribution facility located in Windsor Locks, Connecticut and obtained funding in the principal amount of $20 million. The loan bears interest at 5.63% per annum and matures on June 1, 2013. Annual debt service is approximately $1,382,000 based on a 30 year amortization schedule.

c. See Note 15e. for North Moore Condo financing in April 2004.

17. Due to Affiliates

a. At December 31, 2002, NEG had $10.9 million outstanding under its existing $100 million credit facility with Arnos, an Icahn affiliate. Arnos continued to be the holder of the credit facility; however, the $10.9 million note outstanding under the credit facility was contributed to Holding LLC as part of Gascon's contribution to Holding LLC on September 12, 2001. In December 2001, the maturity date of the credit facility was extended to December 31, 2003 and NEG was given a waiver of compliance with respect to any and all covenant violations. NEG was not in compliance with the minimum interest coverage ratio at September 30, 2002; and December 31, 2002 and the current ratio at December 31, 2002, however, in December 2001, NEG was given a waiver of compliance with respect to any and all covenant violations through December 31, 2003.

On March 26, 2003, Holding LLC distributed the $10.9 million note outstanding under NEG's revolving credit facility as a priority distribution to NEG, thereby canceling the note. Also, on March 26, 2003, NEG, Arnos and Operating LLC entered into an agreement to assign the credit facility to Operating LLC. Effective with this assignment, Arnos amended the credit facility to increase the revolving commitment to $150 million, increase the borrowing base to $75.0 million and extend the revolving due date until June 30, 2004. Concurrently, Arnos extended a $42.8 million loan to Operating LLC under the amended credit facility. Operating LLC then distributed $42.8 million to Holding LLC which, thereafter, made a $40.5 million priority distribution and a $2.3 million guaranteed payment to NEG. NEG utilized these funds to pay the entire amount of the long-term interest payable on the Notes and interest accrued thereon outstanding on March 27, 2003. The Arnos facility was canceled on December 29, 2003 in conjunction with a third party bank financing.

b. On September 24, 2001, Arizona Charlie's, Inc., the predecessor entity to Arizona Charlie's, LLC, which was acquired by American Casino in May 2004, refinanced the remaining principal balance of $7.9 million on a prior note payable to Arnos Corp., an affiliate of Mr. Icahn. The note bore interest at the prime rate plus 1.50% (5.75% per annum at December 31, 2002), with a maturity of June 2004, and was collateralized by all the assets of Arizona Charlie's, Inc. The note was repaid during November 2003. During the years ended December 31, 2003 and 2002, Arizona Charlie's, Inc. paid interest expense of $0.1 million and $0.4 million, respectively.

c. During fiscal year 2002, Fresca, LLC, which was acquired by American Casino in May 2004, entered into an unsecured line of credit in the amount of $25.0 million with Starfire Holding Corporation ("Starfire"), an affiliate of Mr. Icahn. The outstanding balance, including accrued interest, was due and payable on January 2, 2007. As of December 31, 2003, Fresca, LLC had $25.0 million outstanding. The note bore interest on the unpaid principal balance from January 2, 2002 until maturity at the rate per annum equal to the prime rate, as established by Fleet Bank, from time to time, plus 2.75%. Interest was payable semi-annually in arrears on the first day of January and July, and at maturity. The note was guaranteed by Mr. Icahn. The note was repaid during May 2004. During the years ended December 31, 2004, 2003 and 2002, Fresca, LLC paid $0.7 million, $1.2 million and $0.4 million, respectively.

d. In connection with TransTexas' plan of reorganization on the Effective Date, TransTexas as borrower, entered into the Restructured Oil and Gas (O&G) Note with Thornwood, as lender. The Restructured O&G Note is a term loan in the amount of $32.5 million and bears interest at a rate of 10% per annum. Interest is payable semi-annually commencing six months after the Effective Date. Annual principal payments in the amount of $5.0 million are due on the first through fourth anniversary dates of the Effective Date with the final principal payment of $12.5 million due on the fifth anniversary of the Effective Date. The Restructured O&G Note was purchased by the Company in December 2004 and is eliminated in consolidation.

18. Senior Secured Notes Payable and Credit Facility

In January 2004, American Casino closed on its offering of senior secured notes due 2012. The notes, in the aggregate principal amount of $215 million, bear interest at the rate of 7.85% per annum. The notes have a fixed annual interest rate of 7.85% per annum, which will be paid every six months on February 1 and August 1, commencing August 1, 2004. The notes will mature on February 1, 2012. The proceeds were held in escrow pending receipt of all approvals necessary under gaming laws and certain other conditions in connection with the acquisition of Arizona Charlie's Decatur and Arizona Charlie's Boulder. Upon satisfaction of all closing conditions on May 26, 2004, the proceeds of the offering were released from escrow. American Casino used the proceeds of the offering for the acquisition of Arizona Charlie's Decatur and Boulder, to repay intercompany indebtedness and for distributions to the Company. The notes are recourse only to, and are secured by a lien on the assets of, American Casino and certain of its subsidiaries. The notes restrict the ability of American Casino and its restricted subsidiaries, subject to certain exceptions, to: incur additional debt; pay dividends and make distributions; make certain investments; repurchase stock; create liens; enter into transactions with affiliates; enter into sale and leaseback transactions; merge or consolidate; and transfer, lease or sell assets. As of March 31, 2005 (unaudited) and December 31, 2004, American Casino is in

compliance with all terms and conditions of the notes. The notes were issued in an offering not registered under the Securities Act of 1933. At the time American Casino issued the notes, it entered into a registration rights agreement in which it agreed to exchange the notes for new notes which have been registered under the Securities Act of 1933. On October 26, 2004, the SEC declared effective American Casino's registration statement. The exchange offer was consummated on December 1, 2004.

The Company recorded approximately $4.2 million, $2.9 million and $15.6 million of interest expense on the notes payable in the three months ended March 31, 2005 and 2004 (unaudited) and the year ended December 31, 2004 which is included in "Interest expense" in the Supplemental Consolidated Statements of Earnings.

A syndicate of lenders has provided to American Casino a non-amortizing $20.0 million revolving credit facility. The commitments are available to the Company in the form of revolving loans, and include a letter of credit facility (subject to $10.0 million sublimit). Loans made under the senior secured revolving facility will mature and the commitments under them will terminate on January 29, 2008. There were no borrowings outstanding under the facility at March 31, 2005 (unaudited) and December 31, 2004.

Of the Company's cash and cash equivalents at March 31, 2005 (unaudited) and December 31, 2004, approximately $85.9 million and $75.2 million in cash is at American Casino which is subject to the restrictions of its notes and the revolving credit facility.

The fair value of American Casino's long-term debt is based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities. As such, the estimated fair value of long-term debt outstanding is approximately $224.7 million and $229.0 million as of March 31, 2005 (unaudited) and December 31, 2004, respectively.

19. Senior Unsecured Notes Payable

On May 12, 2004, the Company closed on its offering of senior notes due 2012. The notes, in the aggregate principal amount of $353 million, were priced at 99.266%. The notes have a fixed annual interest rate of $8^1/8$%, which will be paid every six months on June 1 and December 1, commencing December 1, 2004. The notes will mature on June 1, 2012. AREH is a guarantor of the debt; however, no other subsidiaries guarantee payment on the notes. American Real Estate Finance Corp. ("AREF"), a wholly-owned subsidiary of the Company, was formed solely for the purpose of serving as a co-issuer of debt securities. AREF does not have any operations or assets and does not have any revenues. The Company intends to use the proceeds of this offering for general business purposes, including its primary business strategy of acquiring undervalued assets in its existing lines of business or other businesses and to provide additional capital to grow its existing businesses. The notes restrict the ability of the Company, subject to certain exceptions, to, among other things; incur additional debt; pay dividends or make distributions; repurchase stock; create liens; and enter into transactions with affiliates. As of March 31, 2005 (unaudited) and December 31, 2004, the Company is in compliance with all terms and conditions of the notes. The notes were issued in an offering not registered under the Securities Act of 1933. At the time the Company issued the notes, the Company entered into a registration rights agreement in which the Company agreed to exchange the notes for new notes which have been registered under the Securities Act of 1933. On November 8, 2004, the SEC declared

effective the Company's registration statement. The exchange offer was consummated on December 15, 2004.

The fair value of the Company's long-term debt is based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities. As such, the estimated fair value of long-term debt outstanding is approximately $375 million as of December 31, 2004.

The Company recorded approximately $7.1 million and $18.5 million of interest expense on the notes payable in the three months ended March 31, 2005 (unaudited) and the year ended December 31, 2004 which is included in "Interest expense" in the Supplemental Consolidated Statements of Earnings for the year then ended.

On February 7, 2005, the Company and AREF, closed on their offering of senior notes due 2013. The notes, in the aggregate principal amount of $480 million, were priced at 100% of principal amount. The notes have a fixed annual interest rate of $7^{1}/8$%, which will be paid every six months on February 15, and August 15, commencing August 15, 2005. The notes will mature on February 15, 2013. AREH does not have any operations or assets and does not have any revenues. AREH is a guarantor of the debt; however, no other subsidiaries guarantee payment on the notes. Simultaneously, the Company loaned AREH $474 million which was net of a discount of $6 million. The loan is under the same terms and conditions as the Company's senior notes due in 2013. The Company intends to use the proceeds of the offering, together with depositary units to be issued by the Company, to fund the acquisitions described in Note 29 to pay related fees and expenses and for general business purposes. The notes restrict the ability of the Company and AREH, subject to certain exceptions, to, among other things; incur additional debt; pay dividends or make distributions; repurchase stock; create liens; and enter into transactions with affiliates. The notes were issued in an offering not registered under the Securities Act of 1933. At the time the Company issued the notes, the Company entered into a registration rights agreement in which it agreed to exchange the notes for new notes which have been registered under the Securities Act of 1933. If the registration statement is not filed with the SEC by August 8, 2005 or if the registration statement is not declared effective by the SEC on or prior to December 5, 2005 or if the Company fails to consummate an exchange offer in which we issue notes registered under the Securities Act of 1933 in exchange for the privately issued notes within 30 business days after December 5, 2005, then the Company will pay, as liquidated damages, $.05 per week per $1,000 principal amount for the first 90 day period following such failure, increasing by an additional $.05 per week of $1,000 principal amount for each subsequent 90 day period, until all failures are cured.

20. Accounts Payable, Accrued Expenses and Other Current Liabilities

Accounts payable, accrued expenses and other liabilities consist of the following (In $000's):

	March 31,	December 31,	
	2005	2004	2003
	(Unaudited)		
Accrued liabilities	$ 11,617	$ 11,463	$ 11,951
Accrued payroll	10,984	11,113	12,507
Due to Panaco, Inc.	—	16,242	—
Other	74,213	57,059	31,422
	$ 96,814	$ 95,877	$ 55,880

21. Earnings Per Limited Partnership Unit

Basic earnings per LP unit are based on net earnings attributable to limited partners, and in period prior to July 1, 2003, adjusted for the preferred pay-in-kind distribution to Preferred Unitholders. The resulting net earnings available for limited partners are divided by the weighted average number of shares of limited partnership units outstanding.

Diluted earnings per LP unit are based on earnings before the preferred pay-in-kind distribution as the numerator with the denominator based on the weighted average number of units and equivalent units outstanding. The Preferred Units are considered to be equivalent units.

Net Income Per Unit

Basic net income per American Real Estate Partners, L.P. Unit is derived by dividing net income attributable to the limited partners by the basic weighted average number of American Real Estate Partners, L.P. Units outstanding for each period. Diluted earnings per American Real Estate Partners, L.P. Unit is derived by adjusting net income attributable to the limited partners for the assumed dilutive effect of the redemption of the Preferred LP Units ("Diluted Earnings") and dividing Diluted

Earnings by the diluted earnings weighted average number of American Real Estate Partners, L.P. Units outstanding for each period.

	Three Months Ended March 31,		December 31,		
	2005	2004	2004	2003	2002
	(Unaudited)		In $000's (except per unit data)		
Attributable to Limited Partners:					
Basic income from continuing operations	$ 38,940	$ 47,663	$ 71,476	$ 48,588	$ 56,380
Add Preferred LP Unit distribution	1,259	1,201	4,981	4,792	4,518
Income before discontinued operations	40,199	48,864	76,457	53,380	60,898
Income from discontinued operations	19,288	9,945	81,031	10,772	6,788
Diluted earnings	59,487	58,809	$ 157,488	$ 64,152	$ 67,686
Weighted average limited partnership units outstanding	46,098,284	46,098,284	46,098,284	46,098,284	46,098,284
Dilutive effect of redemption of Preferred LP Units	3,759,338	6,401,019	5,444,028	8,391,659	10,368,414
Weighed average limited partnership units and equivalent partnership units outstanding	49,857,622	52,499,303	51,542,312	54,489,943	56,466,698
Basic earnings:					
Income from continuing operations	$ 0.84	$ 1.03	$ 1.55	$ 1.00	$ 1.12
Income from discontinued operations	0.42	0.22	1.76	0.24	0.15
Basic earnings per LP unit	$ 1.26	$ 1.25	$ 3.31	$ 1.24	$ 1.27
Diluted earnings:					
Income from continuing operations	$ 0.81	$ 0.93	$ 1.48	$ 0.94	$ 1.00
Income from discontinued operations	0.39	0.19	1.57	0.19	0.12
Diluted earnings per LP unit	$ 1.20	$ 1.12	$ 3.05	$ 1.13	$ 1.12

22. Preferred Units

Pursuant to rights offerings consummated in 1995 and 1997, Preferred Units were issued. The Preferred Units have certain rights and designations, generally as follows. Each Preferred Unit has a liquidation preference of $10.00 and entitles the holder thereof to receive distributions thereon, payable solely in additional Preferred Units, at the rate of $.50 per Preferred Unit per annum (which is equal to a rate of 5% of the liquidation preference thereof), payable annually on March 31 of each year (each, a "Payment Date"). On any Payment Date commencing with the Payment Date on March 31, 2000, the Company, with the approval of the Audit Committee of the Board of Directors of the General Partner, may opt to redeem all, but not less than all, of the Preferred Units for a price, payable either in all cash or by issuance of additional Depositary Units, equal to the liquidation preference of the Preferred Units, plus any accrued but unpaid distributions thereon. On March 31, 2010, the Company must redeem all, but not less than all, of the Preferred Units on the same terms as any optional redemption.

Pursuant to the terms of the Preferred Units, on February 25, 2004, the Company declared its scheduled annual preferred unit distribution payable in additional Preferred Units at the rate of 5% of the liquidation preference of $10 per unit. The distribution was payable March 31, 2004 to holders of record as of March 12, 2004. A total of 489,657 additional Preferred Units were issued. At December 31, 2004 and 2003, 10,286,264 and 9,796,607 Preferred Units are issued and outstanding, respectively. In February 2004, the number of authorized Preferred LP units was increased to 10,400,000.

Pursuant to the terms of the Preferred Units, on March 4, 2005, the Company declared its scheduled annual preferred unit distribution payable in additional Preferred Units at the rate of 5% of the liquidation preference of $10. The distribution was payable on March 31, 2005 to holders of record as of March 15, 2005. A total of 514,133 additional Preferred Units were issued. At March 31, 2005, 10,800,397 Preferred Units are issued and outstanding. In addition, the Company increased the number of authorized Preferred Units to 10,900,000.

On July 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 150 (SFAS 150), *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS 150 requires that a financial instrument, which is an unconditional obligation, be classified as a liability. Previous guidance required an entity to include in equity financial instruments that the entity could redeem in either cash or stock. Pursuant to SFAS 150 the Company's Preferred Units, which are an unconditional obligation, have been reclassified from "Partners' equity" to a liability account in the Supplemental Consolidated Balance Sheets and the preferred pay-in-kind distribution for the period from July 1, 2003 to December 31, 2003 of $2,449,000 and all future distributions have been and will be recorded as "Interest expense" in the Supplemental Consolidated Statements of Earnings.

The Company recorded $1.3 million, $1.2 million, $5.1 million and $2.4 million of interest expense in the three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004 and 2003, respectively, in connection with the Preferred LP units distribution. These amounts are included in "Interest expense" in the Supplemental Consolidated Statements of Earnings.

23. Income Taxes (in $000's)

The difference between the book basis and the tax basis of the net assets of the Company, not directly subject to income taxes, is as follows:

	December 31,	
	2004	2003
Book basis of AREH net assets excluding American Casino, TransTexas and NEG	$ 1,319,566	$ 1,149,418
Excess of tax over book	120,820	79,238
Tax basis of net assets	$ 1,440,386	$ 1,228,656

a. Corporate income taxes

(i.) The Company's corporate subsidiaries recorded the following income tax (expense) benefit attributable to continuing operations for American Casino, TransTexas and NEG for the three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004, 2003 and 2002 (in $000's):

	March 31,		December 31,		
	2005	2004	2004	2003	2002
	(Unaudited)				
Current	$ (1,105)	$ (4,655)	$ (3,030)	$ (5,506)	$ (311)
Deferred	(3,677)	(1,311)	(14,296)	22,256	(9,785)
	$ (4,782)	$ (5,966)	$ (17,326)	$ 16,750	$ (10,096)

(ii.) The tax effect of significant differences representing net deferred tax assets (the difference between financial statement carrying values and the tax basis of assets and liabilities) for the Company is as follows at March 31, 2005 (unaudited), December 31, 2004 and 2003 (in $000's):

	March 31,	December 31,	
	2005	2004	2003
Deferred tax assets:			
Depreciation, depletion and amortization	$ 49,607	$ 54,489	$ 54,439
Net operating loss carryforwards	55,724	53,610	51,997
Investment in Holding LLC	1,927	5,333	18,845
Other	11,955	9,458	8,841
	119,213	122,890	134,122
Valuation allowance	(64,381)	(64,381)	(65,695)
Net deferred tax assets	54,832	58,509	68,427
Less current portion	(2,685)	(2,685)	(2,982)
Non-current net deferred tax assets	$ 52,147	$ 55,824	$ 65,445

(iii.) The provision (benefit) for income taxes differs from the amount computed at the federal statutory rate as a result of the following:

	Year Ended December 31,		
	2004	2003	2002
Federal statutory rate	35.0%	35.0%	35.0%
Tax deduction not given book benefit	1.0	5.6	0.0
Income not subject to taxation	(24.2)	(15.2)	(22.3)
Valuation allowance	(2.3)	(51.8)	(0.5)
Other	0.0	(1.4)	0.3
	9.5%	(27.8)%	12.5%

At December 31, 2004 and 2003, American Casino had net operating loss carryforwards available for federal income tax purposes of approximately $16.0 million and $28.5 million, respectively, which begin expiring in 2020.

SFAS 109 requires a "more likely than not" criterion be applied when evaluating the realizability of a deferred tax asset. As of December 31, 2002, given Stratosphere's history of losses for income tax purposes, the volatility of the industry within which the Stratosphere operates, and certain other factors, Stratosphere had established a valuation allowance for the deductible temporary differences, including the excess of the tax basis of the Stratosphere's assets over the basis of such assets for financial statement purposes and the tax carryforwards. However, at December 31, 2003, based on various factors including the current earnings trend and future taxable income projections, Stratosphere determined that it was more likely than not that the deferred tax assets will be realized and removed the valuation allowance. In accordance with SFAS 109, the tax benefit of any deferred tax asset that existed on the effective date of a reorganization should be reported as a direct addition to contributed capital. Stratosphere has deferred tax assets relating to both before and after Stratosphere emerged from bankruptcy in September of 1998. The net decrease in the valuation allowance was $79.3 million, of which a net amount of $47.5 million was credited to partners' equity in the year ended December 31, 2003.

Additionally, American Casino's acquisition of Arizona Charlie's, LLC and Fresca, LLC in May 2004 resulted in a net increase in the tax basis of assets in excess of book basis. As a result, the Company recognized an additional deferred tax asset of approximately $2.5 million from the transaction. Pursuant to SFAS 109, the benefit of the deferred tax asset from this transaction is credited directly to equity.

At December 31, 2004 and 2003, NEG had net operating loss carryforwards available for federal income tax purposes of approximately $75.9 and $58.0 million, respectively, which begin expiring in 2009. Net operating loss limitations may be imposed as a result of subsequent changes in stock ownership of NEG. Prior to the formation of Holding LLC, the income tax benefit associated with the loss carryforwards had not been recognized since, in the opinion of management, there was not sufficient positive evidence of future taxable income to justify recognition of a benefit. Upon the formation of Holding LLC, management again evaluated all evidence, both positive and negative, in determining whether a valuation allowance to reduce the carrying value of deferred tax assets was still needed and concluded, based on the projected allocations of taxable income by Holding LLC, NEG

more likely than not will realize a partial benefit from the loss carryforwards. In accordance with SFAS 109, NEG recorded a deferred tax asset of $25.5 million as of December 31, 2002, $25.9 million as of December 31, 2003, and $19.3 million as of December 31, 2004. Ultimate realization of the deferred tax asset is dependent upon, among other factors, NEG's ability to generate sufficient taxable income within the carryforward periods and is subject to change depending on the tax laws in effect in the years in which the carryforwards are used. As a result of the recognition of expected future income tax benefits, subsequent periods will reflect a full effective tax rate provision.

SFAS 109 requires a "more likely than not" criterion be applied when evaluating the realizability of a deferred tax asset. At the Confirmation Date, given TransTexas's history of losses for income tax purposes, the volatility of the industry within which TransTexas operates, and certain other factors, TransTexas could not conclude it was more likely than not that it would recognize these tax benefits and established a valuation allowance for all the deferred tax assets. However, as of December 31, 2003, based on TransTexas's current and projected taxable income, TransTexas determined that it is more likely than not that it will recognize a portion of its federal net operating loss carryforwards prior to their expiration. Accordingly, TransTexas has removed that portion of the valuation allowance previously booked against those assets resulting in a $14.4 million tax benefit recorded on the current income statement.

At December 31, 2004 and 2003, TransTexas had net operating loss carryforwards available for federal income tax purposes of approximately $61.2 million and $60.2 million, respectively, which begin expiring in 2020. Utilization of the net operating loss carryforwards is subject to an annual limitation of approximately $2.2 million due to a change in control of ownership (as defined in the Internal Revenue Code). Any unused limitation amount in a given year may be carried forward and utilized in subsequent years.

24. Commitments and Contingencies

a. In January 2002, the Cape Cod Commission, (the "Commission"), a Massachusetts regional planning body created in 1989, concluded that AREP's New Seabury development is within its jurisdiction for review and approval (the "Administrative Decision"). It is the Company's position that the proposed residential, commercial and recreational development is in substantial compliance with a special permit issued for the property in 1964 and is therefore exempt from the Commission's jurisdiction and that the Commission is barred from exercising jurisdiction pursuant to a 1993 settlement agreement between the Commission and a prior owner of the New Seabury property (the "Settlement Agreement").

In February 2002, New Seabury Properties L.L.C. ("New Seabury"), an AREP subsidiary and owner of the property, filed in Barnstable County Massachusetts Superior Court, a civil complaint appealing the Administrative Decision by the Commission, and a separate civil complaint to find the Commission in contempt of the Settlement Agreement. The Court subsequently consolidated the two complaints into one proceeding. In July 2003, New Seabury and the Commission filed cross motions for summary judgment.

Also, in July 2003, in accordance with a Court ruling, the Commission reconsidered the question of its jurisdiction over the initial development proposal and over a modified development proposal that New Seabury filed in March 2003. The Commission concluded that both proposals are within its

jurisdiction (the Second Administrative Decision). In August 2003, New Seabury filed in Barnstable County Massachusetts Superior Court another civil complaint appealing the Commission's second decision and petitioning the court to find the Commission in contempt of the settlement agreement.

In November 2003, the Court ruled in New Seabury's favor on its July 2003 motion for partial summary judgment, finding that the special permit remains valid and that the modified development proposal is in substantial compliance with the Special Permit and therefore exempt from the Commission's jurisdiction; the Court did not yet rule on the initial proposal to build 675 residential/hotel units and 80,000 square feet of commercial space. Under the modified development proposal New Seabury could potentially develop up to 278 residential units and 145,000 square feet of commercial space. In February 2004, the court consolidated the three complaints into one proceeding. In March 2004, New Seabury and the Commission each moved for Summary Judgment to dispose of remaining claims under all three complaints and to obtain a final judgment from the Court. The Court heard arguments in June 2004 and took matters under advisement. The Commission and New Seabury filed a joint motion to delay, until May 6, 2005, any ruling by the court on New Seabury's pending motion for summary judgment and the Commission's pending cross-motion for summary judgment. The parties are in settlement discussions. A proposed settlement agreement was endorsed by the Commission staff and presented at a public hearing of the Executive Committee on April 21, 2005. (See note 29).

b. Environmental Matters

TransTexas' operations and properties are subject to extensive federal, state, and local laws and regulations relating to the generation, storage, handling, emission, transportation, and discharge of materials into the environment. Permits are required for various of TransTexas' operations, and these permits are subject to revocation, modification, and renewal by issuing authorities. TransTexas also is subject to federal, state, and local laws and regulations that impose liability for the cleanup or remediation of property which has been contaminated by the discharge or release of hazardous materials or wastes into the environment. Governmental authorities have the power to enforce compliance with their regulations, and violations are subject to fines or injunctions, or both. TransTexas believes that it is in material compliance with applicable environmental laws and regulations. Noncompliance with such laws and regulations could give rise to compliance costs and administrative penalties. It is not anticipated that TransTexas will be required in the near future to expend amounts that are material to the financial condition or operations of TransTexas by reason of environmental laws and regulations, but because such laws and regulations are frequently changed and, as a result, may impose increasingly strict requirements, TransTexas is unable to predict the ultimate cost of complying with such laws and regulations.

c. The General Partner monitors all tenant bankruptcies and defaults and may, when it deems it necessary or appropriate, establish additional reserves for such contingencies.

d. In addition, in the ordinary course of business, the Company, its subsidiaries and other companies in which the Company has invested are parties to various legal actions. In management's opinion, the ultimate outcome of such legal actions will not have a material effect on the Company's consolidated financial statements taken as a whole.

25. Employee Benefit Plans

a. Employees of the Company who are members of various unions are covered by union-sponsored, collectively bargained, multi-employer health and welfare and defined benefit pension plans. The Company recorded expenses for such plans of approximately $1,767,000, $2,010,000, $8,100,000, $7,600,000 and $6,500,000 for the three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004, 2003 and 2002, respectively. The Company does not have information from the plans' sponsors with respect to the adequacy of the plans' funding status.

b. The Company has retirement savings plans under Section 401(k) of the Internal Revenue Code covering its non-union employees. The plans allow employees to defer, within prescribed limits, a portion of their income on a pre-tax basis through contributions to the plans. The Company currently matches, within prescribed limits, up to 6.25% of eligible employees' compensation at rates up to 50% of the employee's contribution. The Company recorded charges for matching contributions of approximately $179,000, $146,000, $794,000, $714,000 and $981,000, for the three months ended March 31, 2005 and 2004 (unaudited) and the years ended December 31, 2004, 2003 and 2002, respectively.

26. Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, receivables, investment in debt securities of affiliates and accounts payable, accrued expenses and other liabilities and the Preferred Limited Partnership Units Liability are carried at cost, which approximates their fair value.

The Company sells crude oil and natural gas to various customers. In addition, the Company participates with other parties in the operation of crude oil and natural gas wells. Substantially all of the Company's accounts receivable are due from either purchasers of crude oil and natural gas or participants in crude oil and natural gas wells for which the Company serves as the operator. Generally, operators of crude oil and natural gas properties have the right to offset future revenues against unpaid charges related to operated wells. Crude oil and natural gas sales are generally unsecured.

Other Investments

The fair values of the mortgages and notes receivable past due, in process of foreclosure, or for which foreclosure proceedings are pending, are based on the discounted cash flows of the underlying lease. The fair values of the mortgages and notes receivable satisfied after year end are based on the amount of the net proceeds received.

The fair values of the mortgages and notes receivable which are current are based on the discounted cash flows of their respective payment streams.

The approximate estimated fair values of other investments held as of March 31, 2005 (unaudited), December 31, 2004 and 2003 are summarized as follows (in $000's):

	At March 31, 2005		At December 31, 2004		At December 31, 2003	
	Net Investment	Estimated Fair Value	Net Investment	Estimated Fair Value	Net Investment	Estimated Fair Value
Total	$ 244,602	$ 247,600	$ 245,948	$ 248,900	$ 50,328	$ 55,000

The net investment at March 31, 2005 (unaudited), December 31, 2004 and 2003 is equal to the carrying amount of the mortgage receivable less any deferred income recorded.

Mortgages Payable

The approximate estimated fair values of the mortgages payable as of March 31, 2005 (unaudited), December 31, 2004 and 2003 are summarized as follows (in $000's):

	At March 31, 2005		At December 31, 2004		At December 31, 2003	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Total	$ 80,191	$ 81,955	$ 91,896	$ 93,900	$ 180,989	$ 185,000

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

27. Segment Reporting

The Company is engaged in six operating segments consisting of the ownership and operation of (1) rental real estate, (2) hotel and resort operating properties, (3) hotel and casino operating properties, (4) property development, (5) investment in securities including investment in other limited partnerships and marketable equity and debt securities and (6) investment in oil and gas operating properties. The Company's reportable segments offer different services and require different operating strategies and management expertise.

Non-segment revenue to reconcile to total revenue consists primarily of interest income on treasury bills and other investments. Non-segment assets to reconcile to total assets includes investment in U.S. Government and Agency obligations, cash and cash equivalents, receivables and other assets.

The accounting policies of the segments are the same as those described in Note 2.

The Company assesses and measures segment operating results based on segment earnings from operations as disclosed below. Segment earnings from operations is not necessarily indicative of cash available to fund cash requirements nor synonymous with cash flow from operations.

The revenues, net earnings, assets and real estate investment capital expenditures for each of the reportable segments are summarized as follows for the three months ended March 31, 2005 and 2004 (unaudited) and for the years ended and as of December 31, 2004, 2003, and 2002 (in $000's):

	March 31,		December 31,		
	2005	2004	2004	2003	2002
Revenues:					
Hotel & casino operating properties	$ 81,852	$ 74,661	$ 297,868	$ 259,345	$ 250,328
Land, house and condominium sales	8,279	5,014	26,591	13,265	76,024
Rental real estate	4,001	4,963	17,796	20,207	21,574
Hotel & resort operating properties	5,563	1,335	16,211	12,376	12,921
Oil & gas operating properties	27,423	24,701	99,738	57,670	40,516
Other investments	10,440	4,818	34,724	14,024	15,283
Subtotal	137,558	115,492	492,928	376,887	416,646
Reconciling items	6,668(1)	960(1)	13,268(1)	11,779(1)	18,006(1)
Total revenues	$ 144,226	$ 116,452	$ 506,196	$ 388,666	$ 434,652
Net earnings:					
Segment earnings:					
Hotel & casino operating properties	$ 24,228	$ 20,418	$ 70,265	$ 42,488	$ 32,390
Land, house and condominium sales	1,232	1,656	6,355	4,136	21,384
Oil & gas operating properties	11,689	18,412	74,776	45,412	33,411
Rental real estate	3,049	3,878	12,863	14,368	14,206
Hotel and resort operating properties	158	(89)	2,674	4,220	2,679
Other investments	10,440	4,818	34,724	14,024	15,283
Total segment earnings	50,796	49,093	201,657	124,648	119,353
Interest income	6,668	960	13,268	11,779	18,006
Interest expense	(19,265)	(7,191)	(49,669)	(27,057)	(27,297)
General and administrative expenses	(4,555)	(1,933)	(9,806)	(6,851)	(7,029)
Depreciation, depletion, and amortization	(16,167)	(18,396)	(68,291)	(40,571)	(23,646)
Operating income	27,290	22,533	87,159	61,948	79,387
Gain on sales and disposition of real estate from continuing operations	186	6,047	6,942	7,121	8,990
(Loss) gain on sale of assets	(180)	(4)	—	(1,503)	(353)
Loss on sale of limited partnership interests	—	—	—	—	(3,750)
Write-down of marketable equity and debt securities and other investments	—	—	—	(19,759)	(8,476)
Gain on sale of marketable equity securities	—	28,857	40,159	2,607	—
Unrealized losses on securities sold short	21,704	—	(23,619)	—	—
Change in fair market value of derivative contract	(9,813)	—	—	—	—
Impairment loss on equity interest in GB Holdings, Inc.	—	—	(15,600)	—	—
Severance tax refund	—	—	4,468	—	—
Minority interest	—	(39)	(812)	(1,266)	(1,943)
Income tax (expense) benefit	(4,782)	(5,966)	(17,326)	16,750	(10,096)
Income from discontinued operations	19,680	10,147	82,697	11,006	6,937
General partner's share of net income	4,143	(3,967)	(11,561)	(17,544)	(7,528)
Net earnings—limited partners' unitholders	$ 58,228	$ 57,608	$ 152,507	$ 59,360	$ 63,168

(1) Primarily interest income on U.S. Government and Agency obligations and other short-term investments and Icahn note receivable.

	March 31,	December 31,		
	2005	2004	2003	2002
Assets:				
Rental real estate	$ 164,811	$ 196,332	$ 340,062	$ 359,700
Oil and gas properties	180,241	168,136	168,921	—
Hotel and casino operating properties	288,890	289,360	298,703	290,775
Land and construction-in-progress	106,000	106,537	43,459	40,415
Hotel and resort operating properties	46,041	50,132	41,526	44,346
Other investments	466,252	444,603	231,050	479,104
	1,252,235	1,255,100	1,123,721	1,214,340
Reconciling items	1,683,462	1,153,089	707,852	491,691
Total	$ 2,935,697	$ 2,408,189	$ 1,831,573	$ 1,706,031
Real estate investment capital expenditures:				
Acquisitions:				
Rental real estate	$ —	$ 14,583	$ —	$ 18,226
Land and construction-in-progress	—	61,845	—	—
Hotel and casino operating properties	—	125,900	—	—
Hotel and resort operating properties	—	16,463	—	—
	—	$ 218,791	$ —	$ 18,226
Developments:				
Rental real estate	$ —	$ 18	$ 413	$ 181
Oil and gas operating properties	21,071	47,529	633	—
Land and construction-in-progress	—	17,947	—	1,138
Hotel and casino operating properties	4,711	13,589	31,844	19,133
Hotel and resort operating properties	70	2,614	1,067	2,582
	$ 25,852	$ 81,697	$ 33,957	$ 23,034

28. Repurchase of Depositary Units

The Company has previously been authorized to repurchase up to 1,250,000 Depositary Units. As of December 31, 2004, the Company has purchased 1,137,200 Depositary Units at an aggregate cost of approximately $11,921,000.

29. Subsequent Events

a. On January 21, 2005, the Company announced that it had entered into agreements to acquire additional oil and gas and gaming and entertainment assets in transactions with affiliates of Carl C. Icahn. The aggregate consideration for the transactions is $652 million, subject to certain purchase price adjustments, of which $180 million is payable in cash and the balance is payable by the issuance of the Company's limited partnership depositary units valued at $29 per unit. Mr. Icahn currently owns indirectly approximately 86.5% of the Company's outstanding depositary and preferred units and indirectly owns 100% of the Company's general partner, American Property Investors, Inc. Upon the closing of the transactions, Mr. Icahn will own approximately 90.1% of the Company's outstanding depositary units and 86.5% of its preferred units, assuming no purchase price reductions. The transactions were approved by the Audit Committee of the Company's general partner. The Audit Committee was advised as to the transactions by independent legal counsel and financial advisor. The Audit Committee obtained opinions that the consideration to be paid in the transactions was fair, from a financial point of view, to the Company.

The transactions include the acquisition of the membership interest in Holding LLC other than that already owned by National Energy Group, Inc. (which is itself 50.02% owned by the Company); 100% of the equity of each of TransTexas Gas Corporation and Panaco, Inc., all of which will be consolidated under AREP Oil & Gas LLC, which is wholly owned by AREH; and approximately 41.2% of the common stock of GB Holdings and warrants to purchase, upon the occurrence of certain events, approximately 11.3% of the fully diluted common stock of its subsidiary, Atlantic Holdings, which owns 100% of ACE Gaming LLC, the owner and operator of the Sands. The closing of each of the transactions is subject to certain conditions, including approval by the depositary unitholders of the issuance of the depositary units with respect to the transactions for which the consideration is depositary units and the receipt of the oil and gas reserve reports as of January 21, 2005 for each of Holding LLC, TransTexas and Panaco.

Prior to the transactions, each of the Company and Mr. Icahn's affiliated companies owned oil and gas and gaming and entertainment assets. Upon completion of these transactions, all such assets held by Mr. Icahn's affiliates will have been acquired by the Company. As a result of these transactions, the Company will have substantially increased its oil and gas holdings, as well as expanded its gaming and entertainment holdings.

Before the acquisition of GB Holdings and Atlantic Holdings securities, the Company owned approximately 36.3% of the outstanding common stock of GB Holdings and warrants to purchase, upon the occurrence of certain events, approximately 10.0% of the fully diluted common stock of Atlantic Holdings. As a result of the transactions, the Company will own approximately 77.5% of the common stock of GB Holdings and warrants to purchase approximately 21.3% of the fully diluted common stock of Atlantic Holdings. The Company also owns approximately $63.9 million principal amount, or 96.4%, of the 3% senior notes due 2008 of Atlantic Holdings, which, upon the occurrence of certain events, are convertible into approximately 42.1% of the fully diluted common stock of Atlantic Holdings. If all outstanding Atlantic Holdings notes were converted and warrants exercised, the Company would own approximately 63.4% of the Atlantic Holdings common stock, GB Holdings would own approximately 28.8% of the Atlantic Holdings common stock and the remaining shares would be owned by the public.

Between December 6, 2004 and December 27, 2004, the Company purchased (1) $27.5 million aggregate principal amount of the TransTexas Notes, (2) $38.0 million aggregate principal amount of the Panaco Debt, and (3) $37.0 million aggregate principal amount of Atlantic Holdings Notes, bringing the Company's ownership of that debt to $63.9 million principal amount.

On April 6, 2005, the Company completed the acquisition of TransTexas for $180.0 million in cash.

On April 26, 2005, the Board of Directors of our General Partner appointed Jon F. Weber, 46 as President of API. Mr. Weber, who replaces Keith A. Meister as President of API, will assume day-to-day responsibility for our New York-based corporate operations. Mr. Meister will continue to serve as API's Chief Executive Officer.

In April 2005, the Company sold one property for approximately $2.1 million and will recognize a gain of $1.2 million with respect to this sale.

The Company sold short certain equity securities. Such liability is recorded at market value at the balance sheet date and gains and losses are reflected in the statement of earnings. In the three months ended March 31, 2005, the Company recorded unrealized gain on securities sold short of approximately $21.7 million. However, based on market value at June 1, 2005, the Company would have unrealized losses of $32.9 million.

On Thursday, May 12, 2005, the Cape Cod Commission voted in favor of the settlement agreement resolving the litigation that has been pending since January 2002 betwen the Commission and AREP's subsidiary, New Seabury Properties, L.L.C. The settlement agreement between New Seabury and Commission resolves all outstanding litigation issues, defines the limits of New Seabury's exempt development projects and establishes development "performance standards" to preserve the quality of environmental resource areas. Under these guidelines, the agreement will allow New Seabury to develop an additional 450 residences, recreational amenities and commercial space with New Seabury. New Seabury Properties anticipates beginning the first phase of its development plans during the summer of 2005.

On May 17, 2005 AREP (1) converted $28.8 million in principal amount of 3% promissory notes issued by Atlantic Holdings in exchange for 1,898,181 shares of Atlantic Holdings common stock and (2) exercised warrants to acquire 997,620 shares of Atlantic Holdings common stock. Also on May 17, 2005, affiliates of Carl C. Icahn exercised warrants to acquire 1,133,283 shares of Atlantic Holdings common stock. As a result of these transactions, AREP and the affiliates of Mr. Icahn collectively own approximately 58.3% of the outstanding common stock of Atlantic Holding.

30. Quarterly Financial Data (Unaudited) (in $000'S, Except Per Unit Data)

	Three Months Ended(1)							
	March 31,		June 30,		September 30,		December 31,	
	2004	2003	2004	2003	2004	2003	2004	2003
Revenues	$ 116,403	$ 92,416	$ 131,185	$ 89,531	$ 131,748	$ 98,154	$ 126,860	$ 108,565
Operating Income	$ 22,532	$ 16,110	$ 26,979	$ 15,635	$ 24,211	$ 11,988	$ 13,437	$ 18,215
Gains (losses) on property transactions	6,047	1,138	(226)	(272)	1,354	501	(233)	5,754
Loss on sale of assets	—	—	—	—	—	(311)	—	(1,192)
Gain on sale of marketable equity and debt securities	28,857	—	8,310	—	—	2,168	2,992	439
Unrealized losses on securities sold short	—	—	—	—	—	—	(23,619)	—
Impairment loss on equity interest in GB Holdings, Inc.	—	—	—	—	—	—	(15,600)	—
Write-down of marketable equity and debt securities	—	(961)	—	(18,798)	—	—	—	—
Severance tax refund	—	—	4,468	—	—	—	—	—
Minority interest	(39)	—	(487)	—	(123)	459	(163)	(1,725)
Income (loss) from continuing operations before income tax	57,397	16,287	39,044	(3,435)	25,442	14,805	(23,186)	21,491
Income tax (expense) benefit	(5,966)	(3,892)	(3,695)	(3,167)	(3,839)	(3,577)	(3,826)	27,386
Income (loss) from continuing operations	51,431	12,395	35,349	(6,602)	21,603	11,228	(27,012)	48,877
Income from discontinued operations	10,143	1,997	50,161	3,815	10,702	3,210	11,691	1,984
Net earnings (loss)	$ 61,574	$ 14,392	$ 85,510	$ (2,787)	$ 32,305	$ 14,438	$ (15,321)	$ 50,861
Net Earnings (loss) per limited Partnership unit (2):								
Basic earnings:								
Income (loss) from continuing operations	$ 1.03	$ .15	$ .62	$ (.21)	$ .41	$ .25	$ (.59)	$ .81
Income from discontinued operations	.22	.05	1.09	.08	.25	.07	.27	.04
Basic earnings (loss) per LP unit	$ 1.25	$ .20	$ 1.71	$ (.13)	$ .66	$ .32	$ (.32)	$ .85
Diluted earnings:								
Income (loss) from continuing operations	$ .93	$ .15	$ .57	$ (.21)	$ .39	$ .23	$ (.59)	$ .71
Income from discontinued operations	.19	.03	.97	.08	.22	.06	.27	.04
Diluted earnings (loss) per LP unit	$ 1.12	$ .18	$ 1.54	$ (.13)	$ .61	$ .29	$ (.32)	$ .75

(1) All quarterly amounts have been reclassified for the effects of reporting discontinued operations.

(2) Net earnings (loss) per unit is computed separately for each period and, therefore, the sum of such quarterly per unit amounts may differ from the total for the year.

QuickLinks

Exhibit 99.3

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES SUPPLEMENTAL CONSOLIDATED STATEMENTS OF EARNINGS FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED) AND YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' EQUITY AND COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2005 (UNAUDITED) AND YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002 (in $000's)
AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED) AND YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002 (in $000's)
AMERICAN REAL ESTATE PARTNERS, L.P. AND SUBSIDIARIES NOTES TO SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS March 31, 2005 (Unaudited) and December 31, 2004, 2003 and 2002